

**Hotel Shareholding Company
BEOGRADSKO MEŠOVITO PREDUZEĆE
A.D., Beograd**

**Financial Statements
Year Ended December 31, 2018 and
Independent Auditors' Report**

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INDEPENDENT AUDITORS' REPORT

To the Shareholders of the Hotel Shareholding Company "Beogradsko Mešovito Preduzeće" a.d., Beograd

We have audited the accompanying financial statements (pages 2 to 38) of Beogradsko Mešovito Preduzeće a.d., Beograd (the "Company"), which comprise the balance sheet as at December 31, 2018, and the related income statement, statement of other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of the significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the Law on Accounting of 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with the Law on Audit of the Republic of Serbia and standards on auditing applicable in the Republic of Serbia. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by Management, as well as evaluating the presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Beogradsko Mešovito Preduzeće a.d., Beograd as at December 31, 2018, and its financial performance and cash flows for the year then ended in accordance with the accounting regulations of the Republic of Serbia.

Emphasis of Matter

We draw attention to Note 38 to the financial statements, disclosing that the aggregate amount claimed in legal suits filed against the Company totaled RSD 256,254 thousand as of December 31, 2018, excluding any default interest that could be assigned upon completion of the proceedings. At the reporting date the Company formed provisions for contingent losses that may arise from the aforesaid legal suits in the amount of RSD 106,318 thousand. The Company's management holds that the outcome of all the ongoing legal suits cannot be anticipated with certainty given the early stage of some of those suits and that the Company will therefore not be exposed to materially significant potential losses in this respect in excess of the provisions presented within the accompanying financial statements. Our opinion is not qualified in respect of this matter

Report on Other Requirements

Our audit was conducted for the purpose of forming an opinion on the financial statements performed in accordance with accounting regulations of the Republic of Serbia. The additional information in Appendices relate to presentation of the statutory financial statements (originally denominated into Serbian Dinar) into EUR and are not part of the statutory financial statements. This additional information is the responsibility of the Company's management. Such information has been subject to the auditing procedures applied in our audit of the statutory financial statements and, in our opinion, has been prepared, in all material respects in relation to the financial statements prepared in accordance with accounting regulations of the Republic of Serbia.

Belgrade, Jun 26, 2019

Žarko Mijović
Certified Auditor

INCOME STATEMENT
Year Ended December 31, 2018
(Thousands of RSD)

	<u>Note</u>	<u>2018</u>	<u>2017</u>
Operating income			
Sales of goods in domestic market	5	74,073	71,707
Sales of products and services to other related parties in domestic market	5	2,740	2,703
Sales of products and services in domestic market	5	1,195,848	1,275,798
Other operating income	6	<u>54,432</u>	<u>46,833</u>
		<u>1,327,093</u>	<u>1,397,041</u>
Operating expenses			
Cost of commercial goods sold	7	(15,182)	(14,716)
Cost of materials	7	(164,531)	(173,608)
Cost of fuel and energy	8	(69,265)	(63,332)
Staff costs	9	(374,730)	(393,330)
Cost of production services	10	(95,577)	(97,553)
Depreciation/amortization charge	11	(161,184)	(162,339)
Long-term provisions	12	(6,112)	(41,486)
Non-material costs	13	<u>(206,934)</u>	<u>(211,270)</u>
		<u>(1,093,515)</u>	<u>(1,157,634)</u>
Profit from operations		<u>233,578</u>	<u>239,407</u>
Finance income			
Finance income from other related parties	14	3,370	30,324
Interest income (from third parties)	14	6,274	2,825
Foreign exchange gains and positive currency clause effects (third parties)	14	<u>5,278</u>	<u>57</u>
		<u>14,992</u>	<u>33,206</u>
Finance expenses			
Finance expenses to other related parties	15	(8,174)	(14,484)
Other finance expenses	15	-	(594)
Interest expenses (to third parties)	15	(62)	(71)
Foreign exchange losses and negative currency clause effects (to third parties)	15	<u>(448)</u>	<u>(7,004)</u>
		<u>(8,684)</u>	<u>(22,153)</u>
Profit from financing activities		<u>6,238</u>	<u>11,053</u>
Loss from financing activities		<u>-</u>	<u>-</u>
Other income	16	634	2,480
Other expenses	17	<u>(6,841)</u>	<u>(3,110)</u>
Profit from continuing operations before taxes		<u>233,609</u>	<u>249,830</u>
Net profit from discontinued operations, effects of changes in the accounting policies and prior years' error adjustment		<u>1,259</u>	<u>640</u>
Current income tax expense	18a	(40,388)	(33,475)
Deferred tax benefits	18a	<u>4,710</u>	<u>5,669</u>
NET PROFIT FOR THE YEAR		<u>199,190</u>	<u>222,664</u>

Notes on the following pages form
an integral part of these financial statements.

STATEMENT OF OTHER COMPREHENSIVE INCOME
Year Ended December 31, 2018
(Thousands of RSD)

	<u>2018</u>	<u>2017</u>
Net operating result		
Net profit for the year	199,190	222,664
a) Items that will not subsequently be reclassified to the income statement		
Increase/(decreases) in revaluation reserves	-	-
Actuarial gains/(losses) per defined benefit plans	-	-
Gains/(losses) on investments in equity instruments	-	-
Gains/(losses) from the share in the other comprehensive income of associates	-	-
	<u>-</u>	<u>-</u>
b) Items that may subsequently be reclassified to the income statement		
Foreign exchange gains/(losses) on translation of foreign operations	-	-
Gains/(losses) on hedging instruments designated in hedges of the net assets of foreign operations	-	-
Gains/(losses) on hedging instruments designated in hedges of the cash flows	-	-
Gains/(losses) on securities available for sale	-	-
	<u>-</u>	<u>-</u>
Other positive/(negative) comprehensive income, gross	-	-
Taxes payable on other comprehensive income	-	-
Other positive/(negative) comprehensive income, net	<u>-</u>	<u>-</u>
Total positive comprehensive income for the year, net	<u>199,190</u>	<u>222,664</u>

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BALANCE SHEET
As of December 31, 2018
(Thousands of RSD)

	Note	December 31, 2018	December 31, 2017
ASSETS			
Non-current assets			
		2,421,353	2,396,562
Intangible assets			
		14,169	17,798
Concessions, patents, licenses, trademarks, software and other rights	19	5,256	7,430
Other intangible assets	19	8,913	10,368
Property, plant and equipment		2,277,136	2,378,764
Land	20	584,640	584,640
Buildings	20	1,452,374	1,537,990
Plant and equipment	20	228,820	239,277
Other property, plant and equipment	20	1,314	16,857
Advances paid for property, plant and equipment	20	9,988	-
Long-term financial investments			
Long-term financial investments to parent entities and other subsidiaries	21	130,048	-
Current assets		505,987	657,677
Inventories			
		39,558	40,408
Materials, spare parts, small tools and fixtures	22	30,082	33,122
Goods	22	6,379	5,909
Advances paid for inventories and services	22	3,097	1,377
Trade receivables			
		23,508	18,603
Domestic – other related parties	23	233	253
Domestic	23	23,275	18,350
Foreign	23	-	-
Receivables from specific operations		57	28
Other receivables	24	7,333	1,406
Short-term financial investments			
Other short-term financial investments	25	182,457	22,742
Cash and cash equivalents	26	247,636	566,893
Prepayments	27	5,438	7,597
Total assets		2,927,340	3,054,239
Off-balance sheet Assets		56	-

(Continued)

BALANCE SHEET (Continued)
As of December 31, 2018
(Thousands of RSD)

	<u>Note</u>	<u>December 31,</u> <u>2018</u>	<u>December 31,</u> <u>2017</u>
EQUITY AND LIABILITIES			
Equity		2,648,614	2,746,924
Share capital	28	2,702,379	2,702,379
Treasury shares purchased	28	(145,923)	-
Reserves	28	361,669	361,669
Current year's retained earnings	28	199,190	222,664
Prior years' retained earnings	28	749,249	678,162
Prior years' accumulated losses	28	(1,217,950)	(1,217,950)
Non-current provisions and liabilities		114,004	108,637
Provisions for retirement and other employee benefits		6,112	-
Provisions for litigations	29	106,318	106,318
Finance lease liabilities	30	487	1,440
Other long-term liabilities	30	1,087	879
Deferred tax liabilities		94,927	99,637
Current liabilities		69,795	99,041
Short-term financial liabilities		950	923
Other short-term financial liabilities	31	950	923
Advances, deposits and retainers received	32	3,791	14,296
Trade payables		15,186	20,035
Domestic – other related parties		237	237
Foreign – other related parties	29	6,934	7,093
Domestic	29	7,831	11,085
Foreign	29	184	1,620
Other current liabilities	33	1,833	1,747
Value added tax payable	34	8,384	11,966
Other taxes, contributions and duties payable		455	3,251
Accruals	35	39,196	46,823
Total equity and liabilities		<u>2,927,340</u>	<u>3,054,239</u>
Off-balance sheet Liabilities		<u>56</u>	<u>-</u>

Notes on the following pages form
an integral part of these financial statements.

STATEMENT OF CHANGES IN EQUITY
Year Ended December 31, 2018
(Thousands of RSD)

	<u>Equity Components</u>					<u>Total Equity</u>
	<u>Issued (Share) Capital</u>	<u>Reserves</u>	<u>Accumulated Losses</u>	<u>Retained Earnings</u>	<u>Treasury shares purchased</u>	
Opening balance at January 1, 2017						
a) debit balance	-	-	1,217,950	-	-	
b) credit balance	<u>2,702,379</u>	<u>361,669</u>	<u>-</u>	<u>678,162</u>	<u>-</u>	<u>2,524,260</u>
Movements in the previous year – 2017						
a) debit turnover	-	-	-	-	-	
b) credit turnover	<u>-</u>	<u>-</u>	<u>-</u>	<u>222,664</u>	<u>-</u>	<u>222,664</u>
Closing balance at December 31, 2017						
a) debit balance	-	-	1,217,950	-	-	
b) credit balance	<u>2,702,379</u>	<u>361,669</u>	<u>-</u>	<u>900,826</u>	<u>-</u>	<u>2,746,924</u>
Movements in the current year – 2018						
a) debit turnover	-	-	-	151,577	145,923	
b) credit turnover	<u>-</u>	<u>-</u>	<u>-</u>	<u>199,190</u>	<u>-</u>	<u>(98,310)</u>
Closing balance at December 31, 2018						
a) debit balance	-	-	1,217,950	-	145,923	
b) credit balance	<u>2,702,379</u>	<u>361,669</u>	<u>-</u>	<u>948,439</u>	<u>-</u>	<u>2,648,614</u>

Notes on the following pages form
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STATEMENT OF CASH FLOWS
Year Ended December 31, 2018
(Thousands of RSD)

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
<i>Cash inflows from operating activities</i>		
Cash receipts from customers	1,429,108	1,543,277
Interest received from operating activities	6,274	2,825
Other cash receipts from operating activities	65,727	57,457
	1,501,109	1,603,559
<i>Cash outflows from operating activities</i>		
Cash paid to suppliers	(625,355)	(609,253)
Cash paid to and on behalf of employees	(374,730)	(392,782)
Interest paid	(62)	(6,202)
Income taxes paid	(48,752)	(29,758)
Other public duties paid	(115,938)	(125,294)
	(1,164,837)	(1,163,289)
Net cash generated by operating activities	336,272	440,270
CASH FLOWS FROM INVESTING ACTIVITIES		
<i>Cash inflows from investing activities</i>		
Sales of intangible assets, property, plant and equipment	-	5,259
	-	5,259
<i>Cash outflows from investing activities</i>		
Purchases of intangible assets, property, plant and equipment	(64,212)	(72,546)
Other financial investments, net outflows	(289,763)	(12,571)
	(353,975)	(85,117)
Net cash used in investing activities	(353,975)	(79,858)
CASH FLOWS FROM FINANCING ACTIVITIES		
<i>Cash inflows from financing activities</i>		
Short-term borrowings (net inflows)	27	-
Other long-term liabilities, net inflows	208	703
	235	703
<i>Cash outflows from financing activities</i>		
Purchase of own treasury shares and equity interests	(297,499)	-
Short-term borrowings, net outflows	-	(280,529)
Finance lease liabilities	(955)	(494)
	(298,454)	(281,023)
Net cash used in financing activities	(298,219)	(280,320)
Net (decrease)/increase in cash and cash equivalents	(315,922)	80,092
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	566,893	487,383
Foreign exchange gains on translation of cash	5,287	55
Foreign exchange losses on translation of cash	(8,622)	(637)
	247,636	566,893
CASH AND CASH EQUIVALENTS, END OF YEAR	247,636	566,893

Notes on the following pages form
an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2018

All amounts expressed in thousands of RSD, unless otherwise stated.

1. FOUNDATION AND ACTIVITY

The Hotel Shareholding Company "Beogradsko Mešovito Preduzeće" a.d., Beograd (the "Company") was founded pursuant to the Articles of Incorporation executed on April 14, 1989 by and between RO Jugopetrol Beograd, GRO Rad Beograd, SOUR Energoprojekt Beograd, RO Jugoeksport Beograd, RO Putnik Beograd, North Haven Limited, Hong Kong and Hyatt International Corporation, Chicago, Illinois, USA. The Company was registered and entered into the Court Registry with the District Commercial Court of Belgrade – registry card no. 1-3215-00. Under Decision no. BD 22440/2005 dated June 13, 2005, the Company was transferred from the Registry of the Commercial Court to the Business Entity Register maintained by the Serbian Business Registers Agency pursuant to the Company Law.

Hyatt International Corporation is entitled to management under the Articles of Incorporation dated April 14, 1989 and Management Agreement dated April 14, 1989, executed by and between the Company and Hyatt Hong Kong Limited, owned by Hyatt International Corporation, which are deposited with the Business Entity Register maintained by the Serbian Business Registers Agency.

The Company was incorporated for an indefinite period and organized as a private shareholding company. The Company's shares are registered with the Central Securities Depository and Clearing House, with restrictions imposed on trade. As of December 31, 2017, the Company's current shareholders were Luella Enterprises Company Limited, Cyprus (holding a 94.6% equity interest therein) and Energoprojekt Holding ad Beograd (holding a 5.4% equity interest). The owner of the majority shareholder is Etarieia Ellinikon Xenodoheion Lampsas A.E. Athens, Greece. On March 14, 2018, the Company purchased its treasury shares previously owned by Energoprojekt Holding a.d., Beograd. The owner of the majority shareholder is Etarieia Ellinikon Ksenodoheion Lampsas A.E. from Athens, Greece.

The Company's principal activity involves hospitality business, construction, development and management of the Hyatt Regency Hotel, Belgrade (the "Hotel"). The Company's business activities include other activities required or adequate for the realization of the core business activity. The Company's headquarters is located in Belgrade at no. 5, Milentija Popovica Street.

The Company's tax identification number (fiscal code) is 100000805, and its corporate ID number is 07456263. As of December 31, 2018 the Company had 207 employees (December 31, 2017: 205 employees).

2. BASIS OF PREPARATION AND PRESENTATION OF THE FINANCIAL STATEMENTS AND ACCOUNTING CONVENTION

2.1. Basis of Preparation and Presentation of Financial Statements

Legal entities and entrepreneurs incorporated in the Republic of Serbia are required to maintain their books of account, to recognize and value assets and liabilities, income and expenses, and to present, submit and disclose financial statements in conformity with the Law on Accounting (hereinafter: the "Law", Official Gazette of the Republic of Serbia no. 62/2013) and other effective bylaws and regulations. As a medium-sized legal entity, the Company has elected to apply the International Financial Reporting Standards ("IFRS"), which, as per the aforementioned Law, comprise the following: the Framework for the Preparation and Presentation of Financial Statements (the "Framework"), International Accounting Standards ("IAS"), International Financial Reporting Standards ("IFRS"), as well as the related interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC") and subsequent amendments to those standards and related interpretations approved by the International Accounting Standards Board ("IASB"), the translations of which to the Serbian language were approved and issued by the competent Ministry of Finance.

The Ministry's Decision dated March 13, 2014, published in the Official Gazette of the Republic of Serbia no. 35 on March 27, 2014 ("Decision on Adoption of the Translations") adopted the translation of the basic texts of the IFRS and IAS, the Conceptual Framework for Financial Reporting (the "Conceptual Framework") issued by IASB, and the related interpretations issued by IFRIC. The aforesaid translations, adopted by the Decision on Adoption of the Translations, do not include the bases for closure, illustrating examples, guidelines and comments, contrary opinions, elaborated examples or other additional explanatory materials that can be adopted as associated with the standards and interpretations unless it is expressly stated that such materials form an integral part of the standards and interpretations. Based on this Decision on Adoption of the Translations, the Conceptual Framework, IAS, IFRS, IFRIC and related

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2018

All amounts expressed in thousands of RSD, unless otherwise stated.

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

2.1. Basis of Preparation and Presentation of Financial Statements (Continued)

interpretations that have been translated shall be applied to the financial statements prepared as of December 31, 2014.

In addition to the foregoing, some legislative and other regulations applicable in the Republic of Serbia define certain accounting procedures resulting in further departures from IFRS, as follows:

- The Company has prepared these financial statements in line with the requirements of the Rules on the Chart of Accounts and Contents of Accounts within the Chart of Accounts for Companies, Cooperatives and Entrepreneurs (Official Gazette of RS nos. 95/2014 and 144/2014), which depart from the format defined by IAS 1 (revised) – “Presentation of the Financial Statements and IAS 7 – “Statement of Cash Flows”.
- Decision of the Republic of Serbia Ministry of Finance no. 401-00-896/2014-16 dated March 13, 2014 (Official Gazette of the Republic of Serbia no. 35/2014) stipulates that official standards comprise the official translations of the International Accounting Standards (“IAS”) and International Financial Reporting Standards (“IFRS”) issued by the International Accounting Standards Board (“IASB”) as well as interpretations of the standards issued by the International Financial Reporting Interpretations Committee (“IFRIC”) until July 31, 2013. after July 31, 2013 IASB and IFRIC issued a significant number of amendments, annual improvements and supplements to the existing or revised standards and interpretations and pronounced new IFRS and replaced some of the existing IAS, which have not been translated and official adopted in the Republic of Serbia..
- Certain bylaws effective in the current period require recognition, measurement and classification of assets, liabilities and equity, as well as revenues and expenses, that depart from the requirements of the translated and adopted IFRS and IAS.

In accordance with the foregoing, and given the potentially material effects, which the departures of accounting regulations of the Republic of Serbia from IFRS and IAS may have on the fairness of presentations made in the Company’s financial statements, the accompanying financial statements cannot be treated as a set of financial statements prepared in accordance with IFRS and IAS.

In the preparation of the accompanying financial statements, the Company did not apply IFRS and IAS the provisions of which permit early adoption.

These financial statements were prepared at historical cost principle unless otherwise stipulated in the accounting policies presented hereunder.

In the preparation of the accompanying financial statements, the Company adhered to the accounting policies described in Note 3.

In accordance with the Law on Accounting, the Company’s financial statements are stated in thousands of dinars (RSD), dinar being the official reporting currency in the Republic of Serbia.

2.2. Comparative Information

The comparative information in the accompanying financial statements comprises the Company’s financial statements as of and for the year ended December 31, 2017.

2.3. Going Concern

The accompanying financial statements have been prepared on a going concern basis, assuming that the Company will continue to operate for an indefinite time in the foreseeable future.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2018

All amounts expressed in thousands of RSD, unless otherwise stated.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

3.1. Income

Sales of Products and Services

Income from the sales of products and goods are recognized when the substantial risk and rewards associated with the right of ownership are transferred to the customer. Revenues from sales of products and goods are stated at the amounts billed net of approved discounts and value added tax.

Income from service rendering is recognized in the period in which a relevant service was rendered and stated at the amount invoiced net of approved discounts and value added tax.

Finance Income

Finance income includes interest income, foreign exchange gains and other finance income earned in transaction with the other related parties.

Interest income is recognized on an accrual basis in the income statement of the period it relates to.

Other Income

Other income includes gains on the sales of equipment, surpluses and other revenues.

3.2. Expenses

Expenses are recognized in the income statement as per "matching principle," i.e., on an accrual basis and are determined for the period when incurred.

Operating Expenses

Operating expenses include costs incurred in generating sales revenues and comprise cost of commercial goods sold, cost of materials, spare parts, fuel and energy, costs of gross wages and salaries, depreciation and amortization charge and services rendered by third parties. Operating expenses include general expenditures such as rental costs, costs of marketing and advertising, insurance, bank charges, taxes payable and other costs incurred in the current accounting period.

Finance Expenses

Finance expenses encompass interest expenses, foreign exchange losses and other finance expenses. Interest expenses comprise interest accrued on borrowings, which is recorded within the income statement of the period it relates to as per the "matching principle."

Other Expenses

Other expenses include, among others, losses on the sales or disposal of property, plant, equipment and intangible assets, and miscellaneous other expenses in accordance with the Company's accounting policies.

3.3. Foreign Exchange Translation

Transactions denominated in foreign currencies are translated into dinars at the official middle exchange rates as determined in the interbank foreign exchange market and effective at the date of each transaction.

Monetary assets, receivables and liabilities denominated in foreign currencies are translated into dinars by applying the official exchange rates as determined in the interbank foreign exchange market and prevailing at the balance sheet date. Non-monetary items are translated into dinars at the official middle exchange rate effective as at the transaction date.

Foreign exchange positive or negative effects arising upon the translation of transactions performed during the year, and assets and liabilities in foreign currencies as of the balance sheet date, are credited or charged to the income statement as foreign exchange gains or losses, within the item of finance income/expenses.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2018

All amounts expressed in thousands of RSD, unless otherwise stated.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.4. Employee Benefits

Short-Term Employee Benefits - Taxes and Contributions Made to the Employee Social Security Funds

In accordance with regulatory requirements effective in the Republic of Serbia, the Company is obligated to pay contributions to tax authorities and to various state social security funds, which guarantee social security insurance benefits to employees. These obligations involve the payment of taxes and contributions on behalf of the employee, by the employer, in an amount computed by applying the specific, legally-prescribed rates. The Company is also legally obligated to withhold contributions from gross salaries to employees, and on behalf of its employees, to transfer the withheld portions directly to government funds. These taxes and contributions payable on behalf of the employee and employer are charged to expenses in the period in which they arise.

Long-Term Employee Benefits - Obligations for Retirement Benefits

Pursuant to the Collective Bargaining Agreement, the Company is obligated to pay retirement benefits in an amount equal to two gross average salaries of the vesting employee earned in the month preceding the month of retirement benefit payment, which cannot be lower than two average gross salaries paid in the Republic of Serbia in the month preceding the month of retirement benefit payment.

The Company had an independent actuary perform calculation of the present value of its liabilities for the employee retirement benefits as of December 31, 2018 and accrued and recorded the said liabilities as of the reporting date (Note 29).

Short-Term Compensated Absences

Accumulating compensated absences (annual vacation leaves) can be carried forward and used in future periods if the current period's entitlement is not used in full. Expenses for compensated absences are recognized at the amount the Company expects to pay as a result of the unused entitlement that has accumulated at the balance sheet date. In the case of non-accumulating compensated absences, an obligation or expense is recognized when the absences occur.

3.5. Income Taxes

Current Income Tax

Current income tax is payable at the legally prescribed rate of 15% (2017: 15%) on the tax base determined within the tax statement and reported in the annual corporate income tax return, which includes the profit before taxation shown in the statutory statement of income, as adjusted for differences that are specifically defined under statutory tax rules of the Republic of Serbia, less any prescribed tax credits.

The Corporate Income Tax Law of the Republic of Serbia does not envisage that any tax losses of the current period be used to recover taxes paid within a specific carryback period. However, current period tax losses may be used to reduce or eliminate taxes to be paid in future periods for duration of no longer than five ensuing years. Tax losses incurred before January 1, 2010 are available for carryforward for duration of ten ensuing years.

Deferred Income Taxes

Deferred income taxes are provided using the balance sheet liability method, for temporary differences arising between the tax bases of assets and liabilities and their carrying values in the financial statements. Deferred tax liabilities are recognized for all taxable temporary differences. Deferred tax assets are recognized for all deductible temporary differences and tax credits and losses available for carryforward, to the extent that it is probable that taxable profit will be available, against which the deductible temporary differences and the tax loss/credits of the carryforwards can be utilized. Deferred tax assets and liabilities are determined at the tax rate expected to be applied in the period of the relevant asset realization/liability settlement. As at December 31, 2018, deferred tax assets and liabilities were provided at the rate of 15% (December 31, 2017: 15%).

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2018

All amounts expressed in thousands of RSD, unless otherwise stated.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.5. Income Taxes (Continued)

Deferred Income Taxes (Continued)

Deferred income taxes are either charged or credited to the income statement, except in so far as they relate to items that are directly credited or charged to equity, in which case the deferred taxes are also recognized under equity.

3.6. Intangible Assets

Intangible assets can be identified as non-monetary assets without physical features.

Intangible assets are initially recognized at cost or purchase price. Subsequently, intangible assets are carried at cost decreased by any allowance for accumulated amortization and impairment losses.

Subsequent expenditure is recognized as an increase in cost of the respective assets, when it is probable that future economic benefits, in excess of the originally assessed standard of performance, will flow to the Company. All other costs are recognized as expenses as incurred.

Acquired software licenses are capitalized in the amount of expenses incurred in acquisition and placement into use and are amortized over a period from 4 to 10 years.

Amortization method, useful lives and residual value of assets are estimated and reviewed at the end of each reporting period and adjusted if necessary.

3.7. Property and Equipment

Items of property and equipment are initially recognized at cost or purchase price. Cost includes any costs directly attributable to the acquired assets. Items of property and equipment are subsequently carried at cost less allowance for accumulated depreciation and impairment losses, if any.

Expenditure such as modification or adaptation to assets is recognized as an asset, when it is probable that future economic benefits, in excess of the originally assessed standard of performance, will flow to the Company and if reliably measured. Additions to the items of property and equipment during the year are stated at cost, which comprises the amount billed by suppliers increased by direct acquisition-related costs and any costs directly attributable to bringing the assets to working condition for their intended use.

Gains on the sales of property and equipment are recognized as other income. Losses on the sales or disposal of property and equipment are included within other expenses.

The depreciation of property and equipment is computed on a straight-line basis by applying depreciation rates determined in such a manner that cost of property and equipment items is depreciated in equal annual amounts in order to fully write off the cost of the assets over their estimated useful lives. The base for calculating depreciation charge comprises an asset's cost less its residual value. If the residual value is not material, it is not taken into account in depreciation charge calculation, i.e. it does not decrease the cost as the base for depreciation calculation.

Depreciation rates and useful lives of assets applied in the current accounting period are summarized below:

Asset	Rate %	Useful life (years)
Buildings	3	33
Computer equipment	24	4.2
Motor vehicles	15	6.6
Furniture and other equipment	15-24	4.2-6.6

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2018

All amounts expressed in thousands of RSD, unless otherwise stated.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.8. Impairment of Assets

At each balance sheet date, the Company's management reviews the carrying amounts of the Company's tangibles in order to determine the indications of impairment loss. 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 impairment loss. In cases where it is impossible to assess the recoverable amount of an individual asset, the Company assesses the recoverable value of the cash generating unit to which the asset belongs.

The recoverable amount of an asset is the higher of its costs to sell and its value in use. For the purpose of assessing value in use, estimated future cash flows are discounted to the present value by applying the discount rate prior to taxation reflecting the present market estimate of time value of cash and risks specifically related to the asset in question.

If the estimated recoverable amount of assets (or cash generating unit) is below their carrying value, the carrying amount of the asset (or cash generating unit) is reduced to its recoverable amount. An impairment loss is recognized as an expense of the current period under operating expenses.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash generating unit) is increased to the revised estimate of its recoverable value. However, this is performed so that the increased carrying amount does not exceed the carrying value that would have been determined had no impairment loss been recognized for the asset (or cash generating unit) in prior years.

As of December 31, 2018, in the assessment of the management, there were no test of impairment of the Company's property, plant and equipment.

3.9. Inventories

Inventories are primarily stated at the lower of cost and net realizable value. The net realizable value is the price at which inventories may be realized throughout the normal course of business, after allowing for the costs of realization.

The cost of raw materials is comprised of the amount billed by suppliers and is determined using the weighted-average method.

Inventories found to be damaged or of a substandard quality are written off in full. Impairment of inventories is performed for materials and raw materials.

3.10. Leases

The Company has entered into leasing contracts as a lessee. Leases are classified as finance leases whenever the terms of the lease transfer substantially all risks and rewards of ownership over the assets leased to the Company. All other leases are classified as operating leases.

Assets held under finance leases are initially recognized as the assets of the Company at the lower of their fair value and the present value of the minimum lease payments, which is determined at the inception of the particular lease. The corresponding liability to the lessor is included in the balance sheet as a finance lease liability at the present value of the minimum lease payments.

Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognized immediately in profit or loss.

3.11. Financial Instruments

Financial Assets

The Company classifies its financial instruments into the following categories: loans and receivables and financial assets held to maturity. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2018

All amounts expressed in thousands of RSD, unless otherwise stated.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.11. Financial Instruments (Continued)

Cash and Cash Equivalents

For the purposes of the cash flow statement, cash and cash equivalents include cash on hand and balances on accounts held with commercial banks and other highly liquid financial assets with maturities of up to three months.

Loans and Receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are included within current assets unless their maturities are longer than 12 months from the balance sheet date, in which case they are classified as non-current assets.

Receivables comprise domestic and foreign trade receivables and other receivables.

Trade receivables are stated at their nominal value, i.e. invoiced amounts less discounts approved and net of allowance for impairment of receivables deemed irrecoverable based on the individual recoverability assessment. Impairment allowances are made for the receivables for which there is objective evidence of impairment, i.e. for those assessed by the management as uncollectable in full. Impairment allowances are recorded under expenses within the income statement of the period in which the assessment was made. Loans and receivables, as well as financial assets held to maturity, are stated at amortized cost using the effective interest method.

Financial Assets Held to Maturity

Financial assets held to maturity are non-derivative financial assets with fixed or determinable payments and fixed maturity that the Company has intention and the ability to hold to maturity. In the event the Company decides to sell the significant portion of held-to-maturity financial assets, the entire category will be reclassified as available for sale. Held-to-maturity investments are classified as non-current assets unless they mature within less than 12 months from the balance sheet date, in which case they are classified as current assets.

Recognition of Financial Assets

Purchase or sale of a financial asset is accounted for on a trade date.

Measurement of Financial Assets

Financial instruments are initially measured at market value which includes transaction costs for all types of financial assets and liabilities other than those carried at fair value through profit and loss.

Derecognition of Financial Assets

The Company derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire or are ceded. Each entitlement over financial assets created or retained by the Company is recognized as a separate asset or a liability.

Amortized Cost Measurement

The amortized cost of a financial asset is the amount at which the financial asset is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortization using the effective interest method.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2018

All amounts expressed in thousands of RSD, unless otherwise stated.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.11. Financial Instruments (Continued)

Fair Value Measurement

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Fair value is determined using the available market information as at the reporting date and other valuation models used by the Company.

Fair values of certain financial instruments stated at nominal value approximate their carrying amounts. Such instruments include cash and cash equivalents and receivables and liabilities without defined maturities or fixed interest rates.

Other receivables and liabilities are written down to the present values by discounting the future cash flows using current interest rates. The management holds that, due to the nature of the Company's business and its general policies, there are no significant differences between the carrying values and fair values of the financial assets and liabilities.

Impairment of Financial Assets

Impairment for bad and doubtful receivables is calculated based on estimated losses resulting from the inability of customers to settle the liabilities to the Company when due. The management estimates are based on the aging of trade receivables balance and historical write-off experience, customer credit-worthiness and changes in customer payment terms when evaluating the adequacy of the impairment allowance of doubtful receivables. This involves assumptions about future customer behavior and the resulting future collections in cash. The actual amount of collected receivables may differ from the estimated collection amounts, which may have positive or negative effects on the financial performance of the Company.

Decisions on forming impairment allowances of receivables via the impairment allowance account are made by the Company's management.

Trade receivables are written off provided they were previously included in the Company's income and derecognized from the Company's books of account as irrecoverable and the Company was unable to collect such receivables through litigation. Decisions on write-off of receivables are made based on the management's assessment.

Financial Liabilities

Financial liabilities are initially recognized at cost being the fair value of consideration received. After initial recognition financial liabilities are stated at amortized cost by applying the effective interest rate, except for financial liabilities at fair value through profit and loss. Amortized cost of a financial liability is an amount at which liabilities are initially measured decreased by the principal repaid and increased or decreased by the accumulated amortization using the effective interest method.

Financial liabilities comprise borrowings obtained from related parties. A liability per borrowing is classified as current if expected to be settled in the regular business cycle, i.e. if it matures within 12 months after the balance sheet date. All other liabilities are classified as non-current.

Interest and fees (basic and stimulating fees) for liabilities toward related parties are calculated based on the Hotel profitability, under terms defined by the Agreement on the Operation and Management of the Hotel (the "Agreement").

Financial liabilities cease to be recognized when the Company fulfills the respective obligations, or when the contractual repayment obligation has either been cancelled or has expired.

Trade Payables

Trade payables and other operating liabilities are measured at their nominal value.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2018

All amounts expressed in thousands of RSD, unless otherwise stated.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.12. Provisions

A provision should be recognized when the Company has a present obligation (legal or constructive) as a result of a past event, when it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation.

3.13. Earnings per Share and Segment Reporting

Since it is a closed shareholding company whose shares are not quoted in a stock exchange market, the Company has elected not to present disclosures in accordance with IFRS 8 "Operating Segments" and IAS 33 "Earnings per Share."

4. SUMMARY OF KEY ACCOUNTING ESTIMATES

Presentation of the financial statements requires the Company's management to make best estimates and reasonable assumptions that influence the assets and liabilities amounts, as well as the disclosure of contingent liabilities and receivables as of the financial statements preparation date, and income and expenses arising during the accounting period. These estimations and assumptions are based on information available as of the date of preparation of the financial statements. Actual results may vary from these estimates.

What follows are the key assumptions in respect of the future events and other sources of estimations, uncertainties as of the balance sheet date which represent risk from material adjustments to the amounts of balance sheet items in the following fiscal year.

4.1. Depreciation and Amortization Charge and Rates Applied

The calculation of depreciation charge and depreciation rates are based on the estimated economic useful lives of property, plant and equipment. Once a year, in accordance with the requirements of IAS 16 "Property, Plant and Equipment," the Company assesses the remaining useful lives and residual values of the assets based on the current estimates.

The useful lives of property, plant, equipment and intangible assets are based on the historical experience with similar assets and anticipated technological advancement and changes in economic and industrial factors. The adequacy of the remaining useful lives is analyzed on an annual basis, or whenever there are indications of significant changes in the underlying assumptions.

The Company assessed that the residual value and useful economic of its property amounted to EUR 4,800,000 and 33.33 years, respectively as of January 1, 2018. In addition, the Company's management reassessed the residual value of its property as of December 31, 2018 and found it unaltered.

Due to the significance of the non-current assets within the Company's total assets, the impact of any change in the aforesaid assumptions may be material to the Company's financial position as well as its financial performance. For instance, if the Company were to reduce the average useful life of non-current assets by 10%, this would have led to additional depreciation charge in FY 2018 of RSD 17,301 thousand (2017: by RSD 17,358 thousand). If the Company were to reduce the residual value of its non-current assets by 10%, this would have resulted in additional depreciation charge in FY 2018 of RSD 1,702 thousand (2017: by RSD 1,778 thousand).

4.2. Impairment Allowance of Receivables

Impairment allowance for bad and doubtful receivables is calculated based on estimated losses resulting from the inability of customers to settle the liabilities to the Company when due. The management's assessment is based on the aging analysis of trade receivables, historical write-offs, customer creditworthiness and changes in the terms of sale. This includes the assumptions on the future customer behavior and the resultant future collections. Management assesses that allowance for impairment of receivables, in addition to the amount already included in the financial statements, is not necessary.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2018

All amounts expressed in thousands of RSD, unless otherwise stated.

4. SUMMARY OF KEY ACCOUNTING ESTIMATES (Continued)

4.3. Provisions for Litigations

Generally, provisions are highly judgmental. The Company estimates the likelihood of unfavorable events taking place as a result of past events and assesses the amount necessary to settle such liability. Although the Company acts prudently in making such estimates, given the great extent of uncertainty, in certain cases actual results may depart from these estimations. According to the management's estimates, which are to a large extent based on the estimates of the lawyers, appraisers and court valuers as well as on other publicly available information, no additional provisions in this respect are necessary on top of the provisions for costs of the proceedings already disclosed in these financial statements (Note 29).

4.4. Fair Value

The fair value of financial instruments for which an active market does not exist is determined by applying adequate valuation methods. The Company applies its professional judgment in the selection of adequate methods and assumptions.

It is a policy of the Company to disclose the fair value information of those components of assets and liabilities for which published or quoted market prices are readily available, and of those for which the fair value may be materially different from their carrying amounts. In the Republic of Serbia, sufficient market experience, stability and liquidity do not exist for the purchase and sale of receivables and other financial assets or liabilities, for which published market prices are presently not readily available. As a result, fair value cannot readily or reliably be determined in the absence of an active market. The Company's management assesses its overall risk exposure, and in instances in which it estimates that the value of assets stated in its books may not be realized, it recognizes a provision. In the opinion of management, the reported carrying amounts are the most valid and useful reporting values under the present market conditions.

5. SALES REVENUES

	Year Ended December 31,	
	2018	2017
<i>Sales of goods</i>		
Sales of goods in domestic market:		
- sales of drinks	69,634	67,039
- sales of cigarettes	4,439	4,668
	74,073	71,707
<i>Sales of products and services</i>		
- to other related parties, domestic (Note 33)	2,740	2,703
- in domestic market	1,195,848	1,275,798
	1,198,588	1,278,501

Sales of products and services:

	Year Ended December 31,	
	2018	2017
Sales of:		
- rooms	804,362	855,259
- food	296,160	314,187
- telephone and fax	1,311	1,324
- fitness club	45,961	50,954
- Internet	946	1,268
Parking and transport services	25,666	28,216
Laundry revenues	15,023	16,209
Dry cleaning and ironing services	2,054	2,301
Other income	7,105	8,783
	1,198,588	1,278,501

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2018

All amounts expressed in thousands of RSD, unless otherwise stated.

6. OTHER OPERATING INCOME

	Year Ended December 31,	
	2018	2017
Rental income from:		
- presentation hall	25,620	22,691
- business premises	7,025	6,178
- equipment	10,043	6,796
- stores	2,606	3,878
- other	7,304	7,290
Other operating income	1,834	-
	54,432	46,833

7. COST OF MATERIALS

	Year Ended December 31,	
	2018	2017
Cost of food	99,873	106,123
Tools and fixtures	15,244	16,673
Cost of materials	37,467	35,879
Cost of materials used in regular maintenance	5,664	8,582
Water charge	6,283	6,351
	164,531	173,608

8. COST OF FUEL AND ENERGY

	Year Ended December 31,	
	2018	2017
Cost of fuel	16	14
Gas bills	24,355	22,582
Electricity bills	44,894	40,736
	69,265	63,332

9. STAFF COSTS

	Year Ended December 31,	
	2018	2017
Gross salaries and benefits	248,530	247,069
Payroll taxes and contributions charged to the employer	40,400	40,069
Considerations paid per service contracts and author fees	9,890	11,562
Considerations paid to seasonal and temporary employees - youth employment agencies	54,029	55,800
Remunerations to the members of the Company's governing and supervision bodies	6,506	22,021
Other staff costs	15,375	16,809
	374,730	393,330

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2018

All amounts expressed in thousands of RSD, unless otherwise stated.

10. COST OF PRODUCTION SERVICES

	Year Ended December 31,	
	2018	2017
Transportation services	8,166	9,357
Telecommunications and postage	2,364	2,462
Maintenance services	16,682	12,421
Software maintenance	22,531	22,882
Marketing and advertising	26,994	30,466
Public utility services	8,567	8,619
Other production services	10,237	11,346
	95,577	97,553

11. DEPRECIATION AND AMORTIZATION CHARGE

	Year Ended December 31,	
	2018	2017
Depreciation and amortization charge:		
- intangible assets (Note 17)	5,471	6,113
- property, plant and equipment (Note 18)	155,713	156,226
	161,184	162,339

12. LONG-TERM PROVISIONS

	Year Ended December 31,	
	2018.	2017.
Provisions for:		
- Retirement and other employee benefits	6,112	-
- Litigations	-	41,486
	6,112	41,486

13. NON-MATERIAL COSTS

	Year Ended December 31,	
	2018	2017
Security services	9,736	10,146
Tourist agency fees	21,279	21,475
Consultant services	5,684	4,704
Lawyer fees	13,556	11,725
Entertainment	3,239	3,861
Insurance premiums	6,099	6,003
Commissions:		
- gold passport	11,812	11,860
- bank commissions	2,409	2,441
- payment/credit cards	13,341	11,487
Basic fees as per Management Agreement	39,731	41,748
Stimulating fees as per Management Agreement	48,225	53,266
Other non-material expenses	20,620	21,298
Booking center costs	11,203	11,256
	206,934	211,270

Fees payable per Management Agreement relate to the costs due to Hyatt International EAME.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2018

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14. FINANCE INCOME

	Year Ended December 31, 2018	2017
Foreign exchange gains – other related parties (Note 36):		
- Interest income	3,361	-
- Foreign exchange gains and positive currency clause effects	9	30,324
Interest income (from third parties)	6,274	2,825
Foreign exchange gains and positive currency clause effects (from third parties)	5,278	57
	14,922	33,206

15. FINANCE EXPENSES

	Year Ended December 31, 2018	2017
Finance expenses to other related parties:		
- interest expenses (Note 36)	-	5,537
- foreign exchange losses (Note 36)	8,174	8,947
	8,174	14,484
Other finance expenses – withholding taxes on interest paid to a non-resident	-	594
Interest expenses (to third parties)	62	71
Foreign exchange losses and negative currency clause effects (to third parties)	448	7,004
	8,684	22,153

16. OTHER INCOME

	Year Ended December 31, 2018	2017
Surpluses	8	9
Gains on the sale of equipment	51	1,264
Write-off of liabilities	-	1,203
Other income	575	4
	634	2,480

17. OTHER EXPENSES

	Year Ended December 31, 2018	2017
Losses on equipment disposal	3,384	-
Other expenses	3,457	3,110
	6,841	3,110

18. INCOME TAXES

a) Components of Income Taxes

	Year Ended December 31, 2018	2017
Current income tax expenses	(40,388)	(33,475)
Deferred income tax benefits	4,710	5,669
	(35,678)	(27,806)

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2018

All amounts expressed in thousands of RSD, unless otherwise stated.

18. INCOME TAXES (Continued)

b) Numerical Reconciliation between Tax Expense and the Product of the Accounting Results Multiplied by the Statutory Tax Rate

	<u>2018</u>	<u>2017</u>
Profit before taxes	234,868	250,470
Income tax at the statutory tax rate of 15%	35,230	37,570
Tax effects of expenses not recognized for tax purposes	7,043	12,392
Utilized tax credit	(1,885)	(16,488)
Reversal of deferred tax assets per previously recognized tax credits	1,885	16,488
Temporary differences arising on the values of the property, plant and equipment	(6,254)	(6,550)
Reversal of deferred tax assets per the above stated tax credit	1,885	16,488
Temporary differences arising on the provisions for litigations	(341)	(15,606)
	<u>35,678</u>	<u>27,806</u>
Effective tax rate	<u>15%</u>	<u>11%</u>

c) Deferred Tax Assets/Liabilities

Deferred tax liabilities of RSD 94,927 thousand, net as of December 31, 2018 (December 31, 2017: RSD 99,637 thousand) relate to taxable temporary differences resulting from application of different amounts of property, equipment and intangible assets used for tax purposes and their reported amounts within the Company's balance sheet, as well as the tax credit for capital expenditures and provisions for litigations.

Movements on deferred tax liabilities are presented in the table below:

	<u>2018</u>	<u>2017</u>
Deferred tax liabilities		
Balance at January 1	(117,128)	(123,679)
<i>Recognized within the income statement (profit or loss)</i>		
- temporary differences between depreciation/amortization for accounting and tax purposes	6,110	6,551
- Other	144	-
Balance at December 31	<u>(110,874)</u>	<u>(117,128)</u>
Deferred tax assets		
Balance at January 1	17,491	18,373
<i>Recognized within the income statement (profit or loss)</i>		
- expired tax credit carryforward (per capital expenditures)	(1,885)	(16,488)
- provisions for litigations	341	15,606
Balance at December 31	<u>15,947</u>	<u>17,491</u>
Deferred tax liabilities, net	<u>(94,927)</u>	<u>(99,637)</u>

d) Income Tax Liability and Receivables for Prepaid Income Tax

The Company's income tax liability as of December 31, 2018 amounted to RSD 5,562 thousand, presented within the line item of other taxes, contributions and duties payable. As of December 31, 2017 the Company reported receivables for prepaid income taxes in the amount of RSD 2,740 thousand (Note 24).

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2018

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19. INTANGIBLE ASSETS

	Concessions, Patents, Licenses and Other Rights	Other Intangible Assets	Total
Cost			
Balance, January 1, 2017	28,922	32,480	61,402
Additions	2,780	472	3,252
Balance, December 31, 2017	<u>31,702</u>	<u>32,952</u>	<u>64,654</u>
Balance, January 1, 2018	31,702	32,952	64,654
Additions	990	852	1,842
Balance, December 31, 2018	<u>32,692</u>	<u>33,804</u>	<u>66,496</u>
Accumulated Amortization			
Balance, January 1, 2017	20,456	20,287	40,743
Charge for the year (Note 11)	3,816	2,297	6,113
Balance, December 31, 2017	<u>24,272</u>	<u>22,584</u>	<u>46,856</u>
Balance, January 1, 2018	24,272	22,584	46,856
Charge for the year (Note 11)	3,164	2,307	5,471
Balance, December 31, 2018	<u>27,436</u>	<u>24,891</u>	<u>52,327</u>
Net Book Value :			
- at December 31, 2017	<u>7,430</u>	<u>10,368</u>	<u>17,798</u>
- at December 31, 2018	<u>5,256</u>	<u>8,913</u>	<u>14,169</u>

20. PROPERTY AND EQUIPMENT

	Land	Buildings	Equipment	Investment in Progress	Total
Cost					
Balance, January 1, 2017	584,640	3,444,220	740,870	7,617	4,777,347
Additions	-	-	-	72,612	72,612
Transfers	-	2,322	61,050	(63,372)	-
Sales	-	-	(6,618)	-	(6,618)
Other	-	-	(4,345)	-	(4,345)
Balance, December 31, 2017	<u>584,640</u>	<u>3,446,542</u>	<u>790,957</u>	<u>16,857</u>	<u>4,838,996</u>
Balance, January 1, 2018	584,640	3,446,542	790,957	16,857	4,838,996
Additions	-	-	-	57,469	57,469
Transfers	-	-	63,024	(63,024)	-
Sales	-	-	(36,851)	-	(36,851)
Other	-	-	-	-	-
Balance, December 31, 2018	<u>584,640</u>	<u>3,446,542</u>	<u>817,130</u>	<u>11,302</u>	<u>4,859,614</u>
Accumulated Depreciation					
Balance, January 1, 2017	-	1,822,936	490,782	-	2,313,718
Charge for the year (Note 11)	-	85,616	70,610	-	156,226
Sales	-	-	(5,367)	-	(5,367)
Other	-	-	(4,345)	-	(4,345)
Balance, December 31, 2017	<u>-</u>	<u>1,908,552</u>	<u>551,680</u>	<u>-</u>	<u>2,460,232</u>
Balance, January 1, 2018	-	1,908,552	551,680	-	2,460,232
Charge for the year (Note 11)	-	85,616	70,097	-	155,713
Sales	-	-	(33,467)	-	(33,467)
Balance, December 31, 2018	<u>-</u>	<u>1,994,168</u>	<u>588,310</u>	<u>-</u>	<u>2,582,478</u>
Net Book Value :					
- at December 31, 2017	<u>584,640</u>	<u>1,537,990</u>	<u>239,277</u>	<u>16,857</u>	<u>2,378,764</u>
- at December 31, 2018	<u>584,640</u>	<u>1,452,374</u>	<u>228,820</u>	<u>11,302</u>	<u>2,277,136</u>

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2018

All amounts expressed in thousands of RSD, unless otherwise stated.

20. PROPERTY AND EQUIPMENT (Continued)

As of December 31, 2018, the net book value of the Company's building assigned under mortgage instituted as collateral to securitize the repayment of borrowings amounted to RSD 1,537,990 thousand. In 2017 the Company repaid the loan in full.

21. LONG-TERM FINANCIAL INVESTMENTS

	Year Ended December 31,	2018	2017
Long-Term financial investments to other related parties (Note 36)		130,048	-
		130,048	-

As of December 31, 2018, the Company's long-term investments made to the other related parties totaling RSD 130,048 thousand (EUR 1,100,287.85) refer to a long-term loan the Company approved to a related party under the loan agreement executed on March 12, 2018, which stipulates that the maximum loan amount shall not exceed RSD 150 million in EUR equivalent, translated at the exchange rate effective as of the loan approval date. The EUR equivalent amount shall be used as the basis for calculation of the loan principal, interest, fee and other payments defined by the loan agreement. The loan repayment due date is April 1, 2020 and the interest rate applied equals 3.42% per annum. The purpose of the loan is purchase of the shares from non-consenting shareholders and withdrawal of the related party's shares from the Belgrade Stock Exchange listing. The collateral obtained is a corporate guarantee provided by ETERIA ELLINIKON KSENODOHEION LAMPSPA AE, Greece.

22. INVENTORIES

	December 31,	December 31,
	2018	2017
Materials, spare parts, tools and fixtures		
- spare parts	12,576	12,731
- miscellaneous materials	6,242	6,802
- food	3,620	3,368
- fuel	1,036	1,039
- office supplies	3,133	2,860
- small tools and fixtures in use	3,475	6,322
	30,082	33,122
Goods:		
- drinks	6,254	5,752
- cigarettes	125	157
	6,379	5,909
Advances paid to suppliers	3,097	1,377
	39,558	40,408

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2018

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23. TRADE RECEIVABLES

	December 31, 2018	December 31, 2017
Domestic trade receivables - other related parties (Note 36)	233	253
Domestic trade receivables	23,275	18,350
	23,508	18,603

24. OTHER RECEIVABLES

	December 31, 2018	December 31, 2017
Receivables from employees	685	651
Receivables for prepaid income taxes	5,562	-
Receivables for prepaid other taxes and contributions	969	541
Other current receivables	117	214
	7,333	1,406

25. SHORT-TERM FINANCIAL INVESTMENTS

	December 31, 2018	December 31, 2017
Short-Term investments:		
- foreign (EUR 190,000)	22,457	22,510
- domestic	160,000	-
	182,457	22,510
Other Short-Term financial Assets	-	232
	182,457	22,742

The Company's short-term financial investments stated as totaling RSD 182,457 thousand as of December 31, 2018 mostly, in the amount of RSD 22,457 thousand (EUR 190,000), relate to a short-term foreign currency deposit placed as collateral securitizing repayment of a short-term loan approved by a domestic bank to one of the Company's related parties. The deposit matures on September 24, 2019 and does not accrue any interest. The use of the earmarked deposit funds is restricted, i.e., the Company cannot use the funds from the earmarked deposit account.

Short-term RSD deposits totaling RSD 160,000 thousand pertain to the RSD term deposits placed with a domestic bank for a period from October 23, 2018 to January 23, 2019 at an interest rate of 2.82% per annum.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2018

All amounts expressed in thousands of RSD, unless otherwise stated.

26. CASH AND CASH EQUIVALENTS

	December 31, 2018	December 31, 2017
Current accounts in RSD	179,635	120,770
Cash on hand in RSD	1,247	11,992
Foreign currency accounts	66,054	92,349
Cash on hand in foreign currencies	591	2,258
Other cash funds	109	108
Short-term deposits maturing within 90 days	-	339,416
	<u>247,636</u>	<u>566,893</u>

27. PREPAYMENTS

	December 31, 2018	December 31, 2017
Prepaid insurance costs	3,195	2,861
Prepaid software maintenance costs	648	775
Uninvoiced income receivables and other prepayments	1,595	3,961
	<u>5,438</u>	<u>7,597</u>

28. EQUITY

The structure of the Company's share capital as of December 31, 2018 and 2017 was as follows:

	December 31, 2018		December 31, 2017	
	RSD '000	Interest %	RSD '000	Interest %
Luella Enterprises Company, Cyprus	2,556,457	94.60	2,556,457	94.60
Energoprojekt Holding a.d. Beograd	-	-	145,922	5.40
Putnik a.d. Beograd	145,922	5.40	-	-
	<u>2,702,379</u>	<u>100.00</u>	<u>2,702,379</u>	<u>100.00</u>

Movements on the equity accounts during 2018 and 2017 were as follows:

	Share Capital	Reserves	Retained Earnings	Treasury shares purchased	Accumulated Losses	Total
Balance at January 1, 2017	2,702,379	361,669	678,162	-	(1,217,950)	2,524,260
Net profit for the year	-	-	222,664	-	-	222,664
Total comprehensive income, net	-	-	222,664	-	-	222,664
Balance at December 31, 2017	<u>2,702,379</u>	<u>361,669</u>	<u>900,826</u>	<u>-</u>	<u>(1,217,950)</u>	<u>2,746,924</u>
Balance at January 1, 2018	2,702,379	361,669	900,826	-	(1,217,950)	2,746,924
Net profit for the year	-	-	199,190	-	-	199,190
Treasury shares purchased	-	-	-	(145,923)	-	(145,923)
Negative share premium	-	-	(151,577)	-	-	(151,577)
Total comprehensive income, net	-	-	199,190	-	-	199,190
Balance at December 31, 2018	<u>2,702,379</u>	<u>361,669</u>	<u>948,439</u>	<u>(145,923)</u>	<u>(1,217,950)</u>	<u>2,648,614</u>

The Company's share capital comprised 7,417 common stock (ordinary) shares and 750 preferred shares with the same par value of RSD 330,890 per share. Preferred shares do not carry voting rights but entail entitlement to the bankruptcy estate distribution and priority upon dividend payment.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2018

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28. EQUITY (Continued)

In December 2017 the Company executed the Share Sales and Purchase Agreement with Putnik a.d., Beograd and purchased all of its own shares previously owned by Putnik a.d., Beograd (8 shares with the par value of RSD 330,890 per share).

On March 14, 2018, the Company purchased 441 of its treasury shares 441 from Energoprojekt Holding a.d., Beograd, so that, according to the excerpt from the Central Securities Depository and Clearing House, the Company's equity ownership as of March 14, 2018 was as follows:

	<u>In thousand RSD</u>	<u>Shares in total</u>	<u>% Investment</u>
Luella Enterprises Company, Кипар	2,556,457	7.726	94.60
БМП а.д. Београд	<u>145,922</u>	<u>441</u>	<u>5.40</u>
	<u>2,702,379</u>	<u>8.167</u>	<u>100.00</u>

29. PROVISIONS FOR LITIGATIONS

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Provisions for:		
- Provisions for retirement and other employee benefits	6,112	-
- Litigations	<u>106,318</u>	<u>106,318</u>
	<u>112,430</u>	<u>106,318</u>

Provisions for litigations totaling RSD 106,318 thousand as of December 31, 2018 (December 31, 2017: RSD 106,318 thousand) for the major part of RSD 104,042 thousand, refer to the legal proceedings in progress before the judicial bodies of the Republic of Serbia for determining the right to the monetary compensation to the former owners for the land expropriated, where the buildings of the Hyatt Hotel, NIS and Construction Company Rad were built (Note 35).

The Company had an independent actuary perform calculation of the present value of its liabilities for the employee retirement benefits as of December 31, 2018 in accordance with IAS 19, which amounted to RSD 6,112 thousand.

30. LONG-TERM BORROWINGS, FOREIGN AND OTHER LONG-TERM LIABILITIES

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Long-term finance lease liabilities	1,437	2,363
Less: Current portion of finance lease liabilities (Note 31)	<u>(950)</u>	<u>(923)</u>
	<u>487</u>	<u>1,440</u>
	<u>487</u>	<u>1,440</u>
Other long-term liabilities		<u>879</u>

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2018

All amounts expressed in thousands of RSD, unless otherwise stated.

30. LONG-TERM BORROWINGS, FOREIGN AND OTHER LONG-TERM LIABILITIES (Continued)

Breakdown of the finance lease liabilities is provided below:

	Sum of the Minimum Lease Payments		Present Value of the Minimum Lease Payments	
	December 31, 2018	December 31, 2017	December 31, 2018	December 31, 2017
<i>Maturity:</i>				
Within a year	983	985	950	923
From 2 to 3 years	491	1,498	487	1,440
<i>Less: future cost of financing</i>	(37)	(120)	-	-
	<u>1,437</u>	<u>2,363</u>	<u>1,437</u>	<u>2,363</u>
<i>Included in the financial statements as:</i>				
Long-term financial liabilities			487	1,440
Short-term financial liabilities (Note 31)			950	923
			<u>1,437</u>	<u>2,363</u>

31. SHORT-TERM FINANCIAL LIABILITIES

	December 31, 2017	December 31, 2016
Current portion of long-term finance lease liabilities (Note 30)	950	923
	<u>950</u>	<u>923</u>

32. ADVANCES, DEPOSITS AND RETAINERS RECEIVED AND TRADE PAYABLES

	December 31, 2018	December 31, 2017
Advances received	3,791	14,296
Trade payables		
Trade payables – other related parties, domestic (Note 36)	237	237
Trade payables – other related parties, foreign and remunerations to the management (Note 36)	6,934	7,093
Domestic trade payables	7,831	11,085
Foreign trade payables	184	1,620
	<u>15,186</u>	<u>20,035</u>

33. OTHER CURRENT LIABILITIES

	December 31, 2018	December 31, 2017
Other liabilities from specific operations	90	800
Liabilities to employees	1,743	947
	<u>1,833</u>	<u>1,747</u>

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2018

All amounts expressed in thousands of RSD, unless otherwise stated.

34. VALUE ADDED TAX PAYABLE

Value added tax payable amounting to RSD 8,384 thousand as of December 31, 2018 (December 31, 2017: RSD 11,966 thousand) entirely relate to the value added tax liabilities arising from the difference between the output and input VAT amounts.

35. ACCRUALS

	December 31, 2018	December 31, 2017
Accrued expenses for bonuses	4,257	19,319
Accrued electricity costs	3,479	2,864
Accrued gas costs	3,984	2,806
Accrued Gold Passport expenses	3,275	2,081
Accrued tourist agency expenses	984	1,173
Accrued HR activity expenses	520	1,182
Accrued other expenses	7,935	6,207
Deferred Fitness Club income	10,671	9,158
Deferred other income	4,091	2,033
	39,196	46,823

36. RELATED PARTY DISCLOSURES

In the normal course of business, the Company enters into transactions with its related parties (in addition to the majority and minority shareholders, related parties include member firms of the Lampsa Hellenic Hotel Group). Relationships and transactions among the Company and its related parties are defined on a contractual basis and performed under market terms. As of December 31, 2018 and 2017 the balances of receivables and payables and related party transactions relate to the fees payable under the Management Agreement to Hyatt International EAME, interest expenses, foreign exchange gains and losses, trade receivables, long-term borrowings, trade payables (management fees payable to Hyatt International EAME) and interest liabilities disclosed within other current liabilities.

a) Balance Sheet

The Company had the following balances of receivables and payables arising from the related party transactions:

	December 31, 2018	December 31, 2017
Long-Term financial investments (Note 21)		
- Excelsior a.d., Beograd	130,048	-
Trade receivables (Note 23)		
- Excelsior a.d., Beograd	233	253
Total receivables	130,281	253
Trade payables (Note 32)		
- Hyatt International EAME	(6,934)	(7,093)
- Excelsior a.d., Beograd	(237)	(237)
	(7,171)	(7,330)
Total liabilities	(7,171)	(7,330)
Liabilities, net	123,110	(7,077)

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2018

All amounts expressed in thousands of RSD, unless otherwise stated.

36. RELATED PARTY DISCLOSURES (Continued)

b) Income Statement

The breakdown of income and expenses arising from the related party transactions is presented in the following table:

	2018	December 31, 2017
Sales of products and services (Note 5) :		
- Excelsior a.d., Beograd	2,740	2,703
Finance income (Note 14)		
- Excelsior a.d., Beograd	3,361	-
- Markelia Enterprises Company Limited	9	30,324
Total income	6,110	33,027
Non-material costs (Note 12)		
- Hyatt International EAME	(87,956)	(95,014)
Finance expenses (Note 14)		
- Markelia Enterprises Company Limited	(8,174)	(14,484)
Total expenses	(96,130)	(109,498)
Expenses, net	(92,020)	(76,471)

The Company calculated remunerations to the members of the Board of Directors in the total amount of RSD 4,172 thousand, gross for the year ended December 31, 2018.

37. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Capital Risk Management

There is no formal framework delineating the Company's capital risk management. The Company manages capital risk and tries to relieve the risk effects in order to ensure the continuity of its business operations in the foreseeable future while maximizing return on equity to its owners through optimization of the capital structure and debt to equity ratio. The Company's equity includes cash and cash equivalents (Note 26) and equity attributable to owners, which include share capital, reserves, retained earnings, as well as accumulated losses.

Persons in control of finances on the Company level review the equity structure on an annual basis. As a part of the review at issue, Management considers the price of capital and risks related to each type of capital.

The Company's gearing ratios as of the year-end were as follows:

	December 31, 2018	December 31, 2017
Debt a)	2,524	3,242
Cash and cash equivalents	247,636	566,893
Net debt	-	-
Equity b)	2,648,614	2,746,924
Debt to equity ratio	-	-

a) Debt is related to long-term and short-term borrowings, other long-term liabilities, interest liabilities and cost of financing;

b) Equity includes share capital, reserves, retained earnings and accumulated losses.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2018

All amounts expressed in thousands of RSD, unless otherwise stated.

37. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

Significant accounting policies with reference to financial instruments

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

Categories of Financial Instruments

	December 31, 2018	December 31, 2017
Financial assets		
Long-term financial investments	130,048	-
Short-term financial investments	182,457	22,742
Trade receivables	23,508	18,603
Receivables from specific operations	57	28
Receivables for uninvoiced income	1,595	3,961
Cash and cash equivalents	247,636	566,893
	585,301	612,227
Financial liabilities		
Trade payables	15,186	20,035
Finance lease liabilities	487	1,440
Other long-term liabilities	1,087	879
Current portion of finance lease liabilities	950	923
Accrued expenses and other liabilities	20,177	16,313
	37,887	39,590

Basic financial instruments held by the Company comprise cash and cash equivalents, trade receivables, interest receivables and trade payables and interest liabilities, primarily used to finance the Company's current operations. In the regular course of business, the Company is exposed to the risk enumerated and delineated in the following passages.

Financial Risk Management

Financial risks include market risk (foreign currency risk and interest rate risk), credit risk and liquidity risk. These risks are considered on time basis and are diminished by decreasing relevant exposures. The Company does not make use of derivative financial instruments so as to avoid the adverse effect of these risks on the Company's business operations, due to the fact that such instruments are not commonly used on the Republic of Serbia market, nor is there an organized market for such instruments in the Republic of Serbia.

Market Risk

In its business operations, the Company is exposed to financial risks of changes in foreign currency exchange rates and interest rates.

Market risk exposure is measured by means of sensitivity analysis. There have been no significant changes in the manner in which the Company manages and measures the risk exposure.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2018

All amounts expressed in thousands of RSD, unless otherwise stated.

37. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

Market Risk (Continued)

Foreign Currency Risk

The Company is exposed to foreign currency risks inherent in trade receivables, short-term investments, cash and cash equivalents, long-term borrowings, other short-term financial liabilities and trade payables denominated in foreign currencies. The Company does not make use of any special hedging instruments given that such instruments are uncommon in the Republic of Serbia.

The stability of economic environment in which the Company operates is greatly dependent upon the economic measures taken by the Republic of Serbia's Government including the establishment of an adequate legal and legislative framework.

The carrying values of the Company's foreign currency denominated monetary assets and liabilities as of the reporting date were as follows:

	In RSD '000			
	Assets		Liabilities	
	December 31, 2018	December 31, 2017	December 31, 2018	December 31, 2017
EUR	212,671	280,325	1,621	2,666
USD	6,479	6,440	6,934	8,410
	219,150	286,765	8,555	11,076

The Company is sensitive to the movements in the EUR and USD exchange rates. The following table provides details on the Company's sensitivity to the increase and decrease of 10% in the RSD to foreign currency exchange rate. The 10% sensitivity rate was used in internal reporting on the foreign currency risk and it represents the management's best estimate of reasonably expected fluctuations in exchange rates. The sensitivity analysis includes only the outstanding foreign currency assets and liabilities and it adjusts their translation at the period end for the 10% fluctuation in foreign exchange rates. The positive figures in the table indicate a decrease in the result of the current period, being the case when RSD depreciates against the currency at issue. In case of a RSD 10% appreciation against the foreign currency at issue, the impact on the profit for the current period would be the exact opposite of the one calculated in the previous case.

	In RSD '000	
	December 31, 2018	December 31, 2017
EUR	21,105	27,766
USD	(46)	(197)
Impact on the current year's profit	21,059	27,569

The Company's sensitivity to the changes in foreign currency exchange rates decreased in the current period, mainly as a result of the effects of the nominal decrease in foreign currency assets.

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December 31, 2018

All amounts expressed in thousands of RSD, unless otherwise stated.

37. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

Market Risk (Continued)

Interest Rate Risk

The Company is not exposed to the risk of changes in interest rates.

The carrying values of financial assets and liabilities at the end of the period under review are presented in the following table:

	December 31, 2018	December 31, 2017
Financial assets		
<i>Non-interest bearing</i>		
Short-term financial investments	22,457	22,742
Trade receivables	23,508	18,603
Receivables from specific operations	57	28
Receivables for invoiced income	1,595	3,961
Cash and cash equivalents	<u>247,636</u>	<u>227,477</u>
	<u>295,253</u>	<u>272,811</u>
<i>Fixed interest rates</i>		
Cash and cash equivalents	-	339,416
Short-term financial investments	160,000	
Long-term financial investments	<u>130,048</u>	-
	<u>585,301</u>	<u>612,227</u>
Financial liabilities		
<i>Non-interest bearing</i>		
Trade payables	15,186	20,035
Accrued expenses and other liabilities	20,177	16,313
Other long-term liabilities	<u>1,087</u>	<u>879</u>
	<u>36,450</u>	<u>37,227</u>
<i>Fixed interest rates</i>		
Finance lease liabilities	487	1,440
Current portion of finance lease liabilities	<u>950</u>	<u>923</u>
	<u>1,437</u>	<u>2,363</u>
	<u>37,887</u>	<u>39,590</u>

Credit Risk

Managing Trade Receivables

Credit risk relates to the exposure inherent in the possibility that the counterparty fails to act upon its contractual commitments and causes the Company to suffer loss. The Company's exposure to this risk is primarily related to receivables from customers as of the balance sheet date.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2018

All amounts expressed in thousands of RSD, unless otherwise stated.

37. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

Credit Risk (Continued)

Managing Trade Receivables (Continued)

The Company's most significant customers are presented below:

	December 31, 2018	December 31, 2017
Miross TA, Beograd	3,819	-
Euromed doo, Beograd	2,032	-
City Records d.o.o., Beograd	1,849	1,688
Paris Saint Germain Fotball	1,724	-
Lufthansa City Line GmbH, Keln, Nemačka	1,511	1,664
OEBS	842	-
Turkish Airline	592	-
PFB Properties d.o.o., Beograd	539	560
Albania Experience	357	1,295
Telekom Srbija ad, Beograd	242	236
Union Kenya	-	1,766
Robert Bosch d.o.o., Beograd	-	1,318
ILO DWT CO Budapest Office	-	1,082
Medtronic Int Trading	-	746
Ernst&Young d.o.o., Beograd	-	688
Kompas d.o.o., Beograd	-	172
Balcan-Adriatic d.o.o., Beograd	-	35
Other customers	10,001	7,353
Less: Allowance for impairment of trade receivables	-	-
	23,508	18,603

Movements on the account of impairment allowance of receivables are presented below:

	2018	2017
Balance at January 1	-	1,263
Derecognition of receivables	-	(1,263)
Balance at December 31	-	-

Breakdown of the trade receivables as of December 31, 2018 is presented in the following table:

	Gross Exposure	Impairment Allowance	Net Exposure
Trade receivables, not matured	9,032	-	9,032
Trade receivables, matured and provided for	-	-	-
Trade receivables, matured but not provided for	14,476	-	14,476
	23,508	-	23,508

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2018

All amounts expressed in thousands of RSD, unless otherwise stated.

37. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

Credit Risk (Continued)

Managing Trade Receivables (Continued)

Breakdown of the trade receivables as of December 31, 2017 is presented in the following table:

	<u>Gross Exposure</u>	<u>Impairment Allowance</u>	<u>Net Exposure</u>
Trade receivables, not matured	9,919	-	9,919
Trade receivables, matured and provided for	-	-	-
Trade receivables, matured but not provided for	8,684	-	8,684
	<u>18,603</u>	<u>-</u>	<u>18,603</u>

Trade receivables, not matured

Trade receivables, not matured totaling RSD 9,032 thousand as of December 31, 2018 (December 31, 2017: RSD 9,919 thousand) mainly relate to receivables from the sales of services in the last week of 2018. These receivables mainly mature within 7 days from the invoice date, depending on the contractual terms of payment. The average days sales outstanding in 2018 counted 12 days (2017: 6 days).

Trade receivables, matured and provided for

In prior periods the Company made impairment allowance of receivables matured and past due in the amount of RSD od 1,263 thousand, due from customers whose creditworthiness was determined to have changed and which were assessed as unlikely to be collected in full. In 2017 the Company derecognized those receivables and the related impairment allowance. During the 2018 no additional allowances have occurred.

Trade Receivables, matured but not provided for

The aging structure of trade receivables, matured but not provided for is presented in the table below:

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Less than 30 days past due	12,133	7,061
From 31 to 90 days past due	2,290	1,623
From 91 to 180 days past due	53	-
From 181 to 365 days past due	-	-
Over a year past due	-	-
	<u>14,476</u>	<u>8,684</u>

Managing Trade Payables

The Company's trade payables are stated as amounting to RSD 15,186 thousand as of December 31, 2018 (December 31, 2017: RSD 20,035 thousand). Suppliers do not charge penalty (default) interest on outstanding liabilities, whereby the Company settled its dues to suppliers within the agreed terms, in accordance with the financial risk management policies. The average days payable outstanding in 2018 counted 20 days (2017: 18 days).

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2018

All amounts expressed in thousands of RSD, unless otherwise stated.

37. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

Liquidity Risk

The ultimate responsibility for liquidity risk management resides with the Company's management, which is also responsible for managing the Company's short-term, medium-term and long-term financing and liquidity management. The Company manages liquidity by maintaining the necessary level of cash reserves, based on continued monitoring over the planned and actual cash flows, as well as by adequately matching the maturities of financial assets and liabilities.

Liquidity Risk and Credit Risk Tables

The following tables detail the Company's remaining contractual maturity of its financial assets. The tables have been drawn up based on the undiscounted cash flows of financial assets based on the earliest date on which the Company may be able to collect such receivables.

Maturities of Financial Assets

	December 31, 2018					
	Within 1 Month	From 1 to 3 Months	From 3 Months to 1 Year	From 1 to 5 Years	Over 5 Years	Total
Non-interest bearing	272,796	-	22,457	-	-	295,253
Fixed interest rate						
- principal	-	160,000	-	130,048	-	290,048
- interest	-	376	-	5,560	-	5,936
	<u>272,796</u>	<u>160,376</u>	<u>22,457</u>	<u>135,608</u>	<u>-</u>	<u>591,237</u>
	December 31, 2017					
	Within 1 Month	From 1 to 3 Months	From 3 Months to 1 Year	From 1 to 5 Years	Over 5 Years	Total
Non-interest bearing	250,301		22,510			272,811
Fixed interest rate						
- principal	-	339,416	-	-	-	339,416
- interest	-	7	-	-	-	7
	<u>250,301</u>	<u>339,423</u>	<u>22,510</u>	<u>-</u>	<u>-</u>	<u>612,234</u>

The following tables detail the Company's remaining contractual maturity of its financial liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Company may be able to make payments based on such liabilities.

Maturities of Financial Liabilities

	December 31, 2018					
	Within 1 Month	From 1 to 3 Months	From 3 Months to 1 Year	From 1 to 5 Years	Over 5 Years	Total
Non-interest bearing	15,186	20,177		1,087		36,450
Fixed interest rate						
- principal			950	487		1,437
- interest			27	10		37
	<u>15,186</u>	<u>20,177</u>	<u>977</u>	<u>1,584</u>		<u>37,924</u>

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2018

All amounts expressed in thousands of RSD, unless otherwise stated.

37. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

Liquidity Risk (Continued)

Liquidity Risk and Credit Risk Tables (Continued)

Maturities of Financial Liabilities (Continued)

	December 31, 2017					Total
	Within 1 Month	From 1 to 3 Months	From 3 Months to 1 Year	From 1 to 5 Years	Over 5 Years	
Non-interest bearing	20,035	16,313	-	879	-	37,227
Variable interest rate						
- principal	-	-	923	1,440	-	2,363
- interest	-	-	62	37	-	99
	20,035	16,313	985	2,356	-	39,689

Fair Value of Financial Instruments

The fair values of the Company's financial assets and liabilities as of December 31, 2018 and December 31, 2017 do not significantly depart from their carrying values.

Assumptions for the Assessment of the Current Fair Value of Financial Instruments

Given that the sufficient market experience, stability and liquidity do not presently exist for the purchase and sale of financial assets or liabilities, and given that the quoted prices, which could be used for the purposes of disclosing fair value of financial assets and liabilities are unavailable, the method here applied is that of discounted cash flows. In using this method of measurement, interest rates for financial instruments with similar characteristics have been used, with the aim to arrive at the relevant assessment of market values of financial instruments as of the balance sheet date.

38. LITIGATION

Provisions for Litigations

As of December 31, 2018 the Company was involved in several legal suits on various grounds. The aggregate amount claimed in the legal suits filed against the Company totaled RSD 256,254 thousand as of December 31, 2018, excluding any penalty interest. Based on the opinion of the attorneys and management's estimate, a provision of RSD 106,318 thousand was made for contingent litigation losses.

The most significant lawsuits filed against the Company include the administrative proceedings for determining the right to the compensation of the former owners of the confiscated land on which the Hyatt Hotel and buildings of NIS a.d., Novi Sad ("NIS") and GP Rad, Beograd ("Rad") were built as well as three labor lawsuits with former executives.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2018

All amounts expressed in thousands of RSD, unless otherwise stated.

38. LITIGATION (Continued)

Administrative proceedings for the compensation to the former owners of the confiscated land on which the Hyatt Hotel, NIS and Rad buildings were built was finalized before the Commission for the proceedings and deciding on the restitution of the land of the Municipality New Belgrade (the "Commission"). The Commission's first-instance Resolution dated March 19, 2013 confirmed the Company's obligation to pay the compensation to the former owners for the commensurate portion of the land used of 2,111 m². As the second-instance authority, the RS Ministry of Finance rejected the Company's appeal to the aforesaid Resolution on September 9, 2013. On October 24, 2013 the Company filed a suit to the Administrative Court against the second-instance Resolution of the Ministry of Finance, which was rejected by the 9 Administrative Court in its Ruling dated December 9, 2014. As the only remaining remedy, the Company appealed to the Constitutional Court of the Republic of Serbia on January 22, 2015. Until the issue date of the accompanying financial statements, no ruling of the Constitutional Court on the aforesaid appeal has been received. Potential financial implications of these proceedings may be significant. The Company's management hired a certified court valuer who appraised the value of land subject to litigation as amounting to EUR 878,197 as of December 31, 2017. Accordingly, the Company made a provision for a loss contingent on the aforescribed administrative proceedings in the amount of RSD 104,042 thousand. As there is no agreement among the parties on the amount of the compensation, the compensation amount shall be determined by means of expert analysis (which is in progress) in extra-judicial proceedings, under expropriation rules. It was established that one of the former land owners deceased in 2011 so the Court discontinued the procedure with regard to this plaintiff. In accordance with the provisions of the laws governing payment, the monetary compensation determined by the court is payable in equal quarterly installments within 10 years, as from the expiry date of one-year period from the court ruling finality date. As disclosed in Note 39, after the reporting date, the ruling of the Third Basic Court in Belgrade assigned the Company a liability higher than the previous ruling in this case, against which the Company filed an appeal. Given the fact that the lawsuit was not completed and that the Company made a provision for this lawsuit based on the information provided by the expert court valuer, the management believes that the provision made is sufficient and that the Company will have no additional contingent liabilities in this respect.

Legal proceedings totaling RSD 130,986 thousand have been filed against the Company by two former employees (the "Plaintiffs") over payment of compensation for termination of employment and based on non-competition clause. The Company holds that employment of the Plaintiffs was terminated in accordance with the Labor Law, since the Plaintiffs refused to continue employment with the Company. In addition, in the management's opinion, the Plaintiffs are exempt from the prohibition to perform competitive activities in accordance with the executed Employment Contracts. Based on the report of the expert finance valuer, the Company filed countersuits against the Plaintiffs claiming damages incurred based on the Plaintiffs' unjustified receipt of funds from the Company. Given the early stage of the aforesaid labor lawsuits, and the fact that there are countersuits filed, the management believes that no provisions need be made for losses contingent on these lawsuits in the financial statements for 2018.

39. EVENTS AFTER THE REPORTING PERIOD

Under Decision enacted by the Third Basic Court in Belgrade on March 4, 2019, the consideration for half of the expropriated land, belonging to one of the owners, was set in the amount of RSD 69,115,459, which shall be paid in equal quarterly installment within 10 years as from the expiration date of a year from the court decision finality date. The first-instance court determined the consideration amount based on the report of the Tax Administration dated June 9, 2016, where it is stated that the market value of the land at hand was RSD 65,481.25 per square meter.

On May 16, 2019, the Company filed an appeal against the aforesaid Decision with a competent second-instance court.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2018

All amounts expressed in thousands of RSD, unless otherwise stated.

40. TAXATION RISKS

The Republic of Serbia tax legislation is subject to varying interpretations and changes occur frequently. The interpretation of tax legislation by tax authorities as applied to the transactions and activities of the Company may not coincide with that of the management. As a result, transactions may be challenged by tax authorities and the Company may be assessed additional taxes, penalties and interest. The periods remain open to review of tax liabilities by the tax and customs authorities for five years. This virtually means that tax authorities could determine payment of outstanding liabilities within the period of five years from the origination of the liability.

41. EXCHANGE RATES

The official middle exchange rates for major currencies as determined at the interbank foreign exchange market and used in the translation of balance sheet components denominated in foreign currencies into dinars were as follows:

	December 31, 2018	In RSD December 31, 2017
EUR	118,1946	118,4727
USD	103,3893	99,1155

APPENDICES

INCOME STATEMENT
Year Ended December 31, 2018
(Thousands of EUR)

	<u>2018</u>	<u>2017</u>
Operating income		
Sales of goods in domestic market	626	591
Sales of products and services to other related parties in domestic market	23	22
Sales of products and services in domestic market	10,111	10,509
Other operating income	460	386
	<u>11,220</u>	<u>11,508</u>
Operating expenses		
Cost of commercial goods sold	(128)	(121)
Cost of materials	(1,391)	(1,430)
Cost of fuel and energy	(586)	(522)
Staff costs	(3,168)	(3,240)
Cost of production services	(808)	(804)
Depreciation/amortization charge	(1,363)	(1,337)
Long-term provisions	(52)	(342)
Non-material costs	(1,750)	(1,740)
	<u>(9,246)</u>	<u>(9,536)</u>
Profit from operations	<u>1,974</u>	<u>1,972</u>
Finance income		
Finance income from other related parties	28	250
Interest income (from third parties)	53	23
Foreign exchange gains and positive currency clause effects (third parties)	45	-
	<u>126</u>	<u>273</u>
Finance expenses		
Finance expenses to other related parties	(69)	(119)
Other finance expenses	-	(5)
Interest expenses (to third parties)	(1)	(1)
Foreign exchange losses and negative currency clause effects (to third parties)	(4)	(58)
	<u>(74)</u>	<u>(183)</u>
Profit from financing activities	<u>52</u>	<u>90</u>
Other income	5	20
Other expenses	(58)	(26)
Profit from continuing operations before taxes	<u>1,973</u>	<u>2,056</u>
Net profit from discontinued operations, effects of changes in the accounting policies and prior years' error adjustment	11	5
Current income tax expense	(341)	(276)
Deferred tax benefits	40	47
NET PROFIT FOR THE YEAR	<u><u>1,683</u></u>	<u><u>1,832</u></u>

Note:

In accordance with the majority shareholders requirements, the Company's financial statements prepared in accordance with the accounting regulations of the Republic of Serbia and presented in the Company's Serbian dinar (functional currency) were translated into EUR (presentation currency).

Translation of Income Statement for the years ended December 31, 2018 and 2017 was performed using the following average exchange rates:

- 2018: 118.2752
- 2017: 121.4027

BALANCE SHEET
As of December 31, 2018
(Thousands of EUR)

	December 31, 2018	December 31, 2017
ASSETS		
Non-current assets	20,485	20,228
<i>Intangible assets</i>	<i>119</i>	<i>149</i>
Concessions, patents, licenses, trademarks, software and other rights	44	62
Other intangible assets	75	87
<i>Property, plant and equipment</i>	<i>19,266</i>	<i>20,079</i>
Land	4,946	4,935
Buildings	12,288	12,982
Plant and equipment	1,936	2,020
Other property, plant and equipment	11	142
Advances paid for property, plant and equipment	85	-
<i>Long-term financial investments</i>		
Long-term financial investments to parent entities and other subsidiaries	1,100	-
Current assets	4,281	5,552
<i>Inventories</i>	<i>335</i>	<i>342</i>
Materials, spare parts, small tools and fixtures	255	280
Goods	54	50
Advances paid for inventories and services	26	12
<i>Trade receivables</i>	<i>199</i>	<i>157</i>
Domestic – other related parties	2	2
Domestic	197	155
Other receivables	62	12
<i>Short-term financial investments</i>		
Other short-term financial investments	1,544	192
Cash and cash equivalents	2,095	4,785
Prepayments	46	64
Total assets	24,766	25,780

(Continued)

BALANCE SHEET (Continued)
As of December 31, 2018
(Thousands of EUR)

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
EQUITY AND LIABILITIES		
Equity	22,406	23,186
Share capital	30,860	30,860
Treasury shares purchased	(1,235)	-
Reserves	4,476	4,476
Current year's retained earnings	1,683	1,832
Prior years' retained earnings	7,658	5,826
Prior years' accumulated losses	(10,710)	(10,710)
Translation reserves	(10,326)	(9,098)
Non-current provisions and liabilities	965	916
Provisions for retirement and other employee benefits	52	-
Provisions for litigations	900	897
Finance lease liabilities	4	12
Other long-term liabilities	9	7
Deferred tax liabilities	803	841
Current liabilities		
Short-term financial liabilities	8	8
Other short-term financial liabilities	8	8
Advances, deposits and retainers received	32	121
Trade payables	129	170
Domestic – other related parties	2	2
Foreign – other related parties	59	60
Domestic	66	94
Foreign	2	14
Other current liabilities	16	15
Value added tax payable	71	101
Other taxes, contributions and duties payable	4	27
Accruals	332	395
Total equity and liabilities	<u>24,766</u>	<u>25,780</u>

Note:

In accordance with the majority shareholder requirements, the Company's financial statements prepared in accordance with the accounting regulations of the Republic of Serbia and presented in the Company's Serbian dinar (functional currency) were translated into EUR (presentation currency).

Translation of Balance Sheet as at December 31, 2018 and 2017 was performed using the following rates:

- Balance Sheet items at December 31, 2018 except for the share capital, revaluation reserves and net profit were translated using the closing rate: 118.1946
- Balance Sheet items at December 31, 2017 except for the share capital, revaluation reserves and net profit were translated using the closing rate: 118.4727
- Share capital at December 31, 2018 and December 2017 was translated using the historical exchange rate: 87.569
- Treasury shares purchased at December 31, 2018 was translated using the exchange rate at the date of transaction: 118.20
- Revaluation reserves at December 31, 2018 and December 31, 2017 were translated using the exchange rate at the date of revaluation of property, plant and equipment: 80.8018.
- Net profits for the years ended December 31, 2018 and December 31, 2017 were translated using the average exchange rate for 2018 and 2017: 118.2752 and 121.4027.