

EXCELSIOR A.D., BEOGRAD

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

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Translation of the Auditors' Report issued in the Serbian language

INDEPENDENT AUDITORS' REPORT

To the Shareholders of the Company Excelsior a.d., Beograd

We have audited the accompanying financial statements of Excelsior a.d., Beograd (the "Company"), which comprise the balance sheet as of 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 significant accounting policies and other notes to the financial statements.

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, as well as 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 overall presentation of the financial statements.

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

Basis for Qualified Opinion

As disclosed in note 20 to the financial statements, trade receivables as of December 31, 2018 amount to RSD 3,021 thousand. On the basis of the procedures for independent confirmation of the balances of these receivables, we did not receive responses to the submitted requests for confirmation, and consequently, we were not able to confirm the stated balances of the part of the receivables in the amount of RSD 1,538 thousand. In addition, the customers who replied to the sent confirmation confirmed their obligation to the Company in the amount of RSD 453 thousand, while the Company recorded receivables in the amount of RSD 1,483 thousand. Based on the available information, we were unable to identify the potential effects of reconciliation on the operating result for 2018.

Qualified Opinion

In our opinion, except for the effect of matter expressed in the *Basis for Qualified Opinion* paragraph, the financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2018, and financial performance and its cash flows for the year then ended in accordance with the regulations of the Republic of Serbia.

INDEPENDENT AUDITORS' REPORT

To the Shareholders of the Company Excelsior a.d., Beograd (Continued)

Emphasis of Matter

- The accompanying financial statements have been prepared on a going concern basis. As of December 31, 2018, the Company's current liabilities exceeded its current assets by RSD 33,918 thousand. These conditions indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern. The accompanying financial statements do not include any adjustments that might result from this uncertainty.

- In accordance with the Corporate Income Tax Law of the Republic of Serbia, the annual corporate income tax return for 2018 should be submitted to the Tax authorities within 180 days from the date of expiry of the period for which the tax liability is determined. Up to the date of completion of the audit of the financial statements for 2018, from the above-mentioned reason, the Company did not submit the annual corporate income tax return. Within this period the Company is obliged to prepare and submit Transfer pricing report.

Our opinion is not modified in respect to these matters.

Report on Other Regulatory Requirements

Management is responsible for preparation of an annual business report in accordance with the requirements of the Law on Accounting of the Republic of Serbia, which is not an integral part of the accompanying financial statements. In accordance with the Law on Audit of the Republic of Serbia, our responsibility is to express an opinion on the compliance of the Company's annual business report for the year 2018 with its financial statements for the same financial year. In our opinion, the financial information disclosed in the annual business report for 2018 is consistent with the audited financial statements of the Company for the year ended December 31, 2018.

Other matters

The Company's financial statements as of December 31, 2017 and for the year than ended were audited by another auditor who expressed unqualified opinion on the accompanying financial statements in its report dated

Belgrade, April 22, 2019

Jelena Latinkić
Certified Auditor

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

	<u>Note</u>	<u>December 31, 2018</u>	<u>December 31, 2017</u>
ASSETS			
Non-current assets			
		681,743	693,106
<i>Intangible assets</i>			
Concessions, patents, licenses, trademarks, software and other rights	17	5,025	5,367
<i>Property, plant and equipment</i>			
Land	17	147,937	147,937
Buildings		484,449	504,106
Plant and equipment		16,966	16,094
Other property, plant and equipment		111	110
Advances paid for property, plant and equipment		7,871	62
<i>Long-term financial investments</i>			
Other long-term investments		19,384	19,430
Current assets			
		22,286	37,005
<i>Inventories</i>			
Materials, spare parts, small tools and fixtures	19	2,191	3,798
Advances paid for inventories and services		2,029	2,702
		162	1,096
<i>Trade receivables</i>			
Domestic – other related parties	20	3,021	5,228
Foreign – other related parties		-	237
Domestic		230	1,609
Foreign		1,396	-
		1,395	3,382
Other receivables	21	5,765	5,109
Cash and cash equivalents	22	10,797	22,460
Prepayments		512	410
TOTAL ASSETS		704,029	730,111

(Continued)

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

	Note	December 31, 2018	December 31, 2017
EQUITY AND LIABILITIES			
Equity		386,739	521,388
Share capital	24	77,311	77,311
Repurchase own shares		(13,452)	-
Revaluation reserves arising from revaluation of intangible assets, property, plant and equipment		411,955	411,955
Retained earnings		-	32,122
Current year's retained earnings		-	5,708
Prior years' retained earnings		-	26,414
Accumulated losses		(89,075)	-
Current year's loss		(6,846)	-
Prior years' accumulated losses		(82,229)	-
Non-current provisions and liabilities		205,496	98,739
Long-term provisions	25	1,195	525
Provisions for litigations – labor disputes		525	525
Other long-term provisions		670	-
Long-term liabilities	26	204,301	98,214
Liabilities to other related parties		129,908	-
Long-term borrowings, foreign		74,393	98,214
Deferred tax liabilities	16 c	55,590	57,438
Current liabilities		56,204	52,546
Short-term financial liabilities	27	46,096	42,012
Short-term borrowings, domestic		22,457	22,582
Other short-term financial liabilities		23,639	19,430
Advances, deposits and retainers received		169	790
Trade payables	28	6,059	8,759
Domestic – other related parties		234	253
Domestic		2,576	3,334
Foreign		1,593	3,387
Other account trade payables		1,656	1,785
Other current liabilities		-	13
Value added tax payable		3,018	967
Other taxes, contributions and duties payable		862	5
TOTAL EQUITY AND LIABILITIES		704,029	730,111

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

	<u>Note</u>	<u>2018</u>	<u>2017</u>
Operating income		153,287	135,068
Sales of products and services			
Sales of products and services to other related parties in domestic market	5	-	197
Sales of products and services in domestic market		149,845	133,201
		<u>149,845</u>	<u>133,398</u>
Other operating income	6	3,442	1,670
Operating expenses		(148,939)	(125,341)
Revenue from undertaking for own purposes		114	-
Cost of materials	7	(17,155)	(17,022)
Cost of fuel and energy	8	(7,657)	(7,871)
Staff costs	9	(48,790)	(34,685)
Cost of production services	10	(16,617)	(10,306)
Depreciation/amortization charge	11	(25,984)	(25,181)
Long term provisions		(670)	-
Non-material costs	12	(32,180)	(30,276)
		<u>(148,939)</u>	<u>(125,341)</u>
Profit from operations		4,348	9,727
Finance income	13	1,003	6,901
Finance income from related parties and other finance income		26	-
Interest income (from third parties)		363	693
Foreign exchange gains and positive currency clause effects (third parties)		614	6,208
		<u>1,003</u>	<u>6,901</u>
Finance expenses	13	(12,321)	(7,843)
Interest expenses (to third parties)		(11,903)	(5,864)
Foreign exchange losses and negative currency clause effects (to third parties)		(418)	(1,979)
		<u>(12,321)</u>	<u>(7,843)</u>
Loss from financing activities		(11,318)	(942)
Losses on value adjustment of other assets carried at fair value through profit and loss		-	-
Other income	14	2,049	1,267
Other expenses	14	(2,445)	(3,092)
		<u>(11,318)</u>	<u>(942)</u>
Profit/(loss) from continuing operations before taxes		(7,366)	6,960
Net loss from discontinued operations, effects of changes in accounting policies and prior years' error adjustment		(466)	(18)
		<u>(7,366)</u>	<u>6,960</u>
Profit/(loss) before taxes		(7,832)	6,942
Current income tax expense	16 a	(862)	(2,967)
Deferred tax benefits	16 a	1,848	1,733
		<u>(7,832)</u>	<u>6,942</u>
NET PROFIT/(LOSS) FOR THE YEAR	16 b	(6,846)	5,708

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

	<u>Note</u>	<u>2018</u>	<u>2017</u>
Net operating result			
Net profit/(loss) for the year		<u>(6,846)</u>	<u>5,708</u>
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>
		<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/(negative) comprehensive income for the year, net		<u><u>(6,846)</u></u>	<u><u>5,708</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)

	Equity Components					Total Equity
	Issued (Share) Capital	Accumulated Losses	Repurchase own shares	Retained Earnings	Revaluation Reserves	
Opening balance at January 1, 2017						
a) debit balance	-	45,104	-	-	-	
b) credit balance	77,311	-	-	71,518	411,955	515,680
Movements in the previous year – 2017						
a) debit turnover	-	-	-	45,104	-	
b) credit turnover	-	45,104	-	5,708	-	5,708
Closing balance at December 31, 2017						
a) debit balance	-	-	-	-	-	
b) credit balance	77,311	-	-	32,122	411,955	521,388
Movements in the current year - 2018						
a) debit turnover	-	89,075	13,452	32,122	-	
b) credit turnover	-	-	-	-	-	134,649
Closing balance at December 31, 2018						
a) debit balance	-	89,075	13,452	-	-	
b) credit balance	77,311	-	-	-	411,955	386,739

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

STATEMENT OF CASH FLOWS
Year Ended December 31, 2018
(Thousands of RSD)

	<u>2018</u>	<u>2017</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
<i>Cash inflows from operating activities</i>		
Cash receipts from customers	164,881	148,115
Interest received from operating activities	363	693
Other cash receipts from operating activities	639	842
	<u>165,883</u>	<u>149,650</u>
<i>Cash outflows from operating activities</i>		
Cash paid to suppliers	(95,530)	(60,761)
Cash paid to and on behalf of employees	(48,790)	(35,996)
Interest paid	(11,903)	(5,864)
Income taxes paid	-	(3,351)
Other public duties paid	-	(15,231)
	<u>(156,223)</u>	<u>(121,203)</u>
Net cash generated by operating activities	<u>9,660</u>	<u>28,447</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
<i>Cash inflows from investing activities</i>		
Other financial investments, net inflows	-	13,167
	<u>-</u>	<u>13,167</u>
<i>Cash outflows from investing activities</i>		
Purchases of, intangible assets, property, plant and equipment	(6,856)	(12,095)
Other financial investments, net outflows	-	-
	<u>(6,856)</u>	<u>(12,095)</u>
Net cash used in investing activities	<u>(6,856)</u>	<u>1,072</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
<i>Cash inflows from financing activities</i>		
Long-term borrowings, net inflows	129,908	-
	<u>129,908</u>	<u>-</u>
<i>Cash outflows from financing activities</i>		
Repurchase of own shares	(127,803)	-
Long-term borrowings, net outflows	(16,892)	(169)
Short-term borrowings, net outflows	-	(19,380)
	<u>(144,695)</u>	<u>(19,549)</u>
Net cash used in financing activities	<u>(14,797)</u>	<u>(19,549)</u>
Net increase in cash and cash equivalents	<u>-</u>	<u>9,970</u>
Net decrease in cash and cash equivalents	<u>(11,983)</u>	<u>-</u>
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	22,460	12,644
Foreign exchange gains on translation of cash	613	55
Foreign exchange losses on translation of cash	(293)	(209)
	<u>10,797</u>	<u>22,460</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>10,797</u>	<u>22,460</u>

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 involved in hotel, accommodation and tourist services Excelsior a.d., Beograd (hereinafter: the "Company") was established on November 2, 1993.

Under the Agreement on the Acquisition of Socially-Owned Capital via Public Auction dated February 27, 2008, 70% of the socially-owned capital was sold to the entity Eteria Ellinikon Ksenodohion Lampsa AE, Athens, Greece.

On April 24, 2017, the Company executed the Management Agreement with Orbis S.A., Warsaw, Poland, a licensed representative of Accor Group, France in Serbia. Pursuant to the aforesaid Agreement, Orbis S.A., Warsaw, Poland, undertakes to manage all the hoteling activities under the protected Mercure brand in line with all the brand standards for a period of ten years as from September 1, 2017, when the Hotel was opened under the new name of the Mercure Belgrade Excelsior Hotel.

The primary business activity of the Company includes hotel, accommodation and tourist activities. The Company's registered office is in Belgrade, at no. 5, Kneza Milosa Street.

The Company's tax identification number (fiscal code) is 100279522, and its corporate ID is 06934218.

As of December 31, 2018, the Company had 40 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 public shareholding entity, the Company is required to apply 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 interpretations that have been translated shall be applied to the financial statements prepared as of December 31, 2014.

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)**

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.

These financial statements were approved by the Company's management.

2.2. Comparative Information

Comparative information in these financial statements comprises the Company's financial statements as of and for the year ended December 31, 2017, which were subject to independent audit.

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)****2.3. Going Concern**

The Company's ability to continue as a going concern is dependent on the continued financial support of its majority owner. The Company's management expects that the Company will achieve stable income and cut-down on costs or increase in costs below the increase in revenues in the forthcoming period. Furthermore, the Company's expectations are that the Management Agreement executed with Orbis S.A., Warsaw, Poland, which will be management all the hoteling activities under the protected Mercure brand, will contribute to stabilization and profitable operation of the Company. Accordingly, the accompanying financial statements have been prepared on a going concern basis, assuming that the Company will continue to operate in the foreseeable future.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Company consistently applied the following accounting policies in all periods presented in these financial statements.

3.1. Income*Income from Service Sales and Rendering*

Income from service sales and rendering as well as revenues from sales of products and goods is 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 is rendered and stated at the amounts invoiced net of approved discounts and value added tax.

Finance Income

Finance income includes interest income, foreign exchange gains and other finance income.

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

Other Income

Other income includes: reversal of long-term provisions, surpluses and other income.

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, fuel and energy, costs of gross wages and salaries, depreciation and amortization charge and services rendered by third parties. Operating expenses also 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.

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)****3.2. Expenses (Continued)***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 costs of damages caused by hotel guests and miscellaneous other expenses.

3.3. Foreign Currency 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 items of finance income or expenses.

Receivables with a currency clause index are translated into dinars at the middle exchange rate effective as at the balance sheet date. Foreign exchange positive or negative effects arising thereof are stated in the income statement, as gains or losses on the risk hedges within other income or expenses.

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.

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 (Continued)

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 engaged the actuary to calculate the provisions for employee retirement and other benefits as at 31 December 2018.

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. The taxable base 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.

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*

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%.

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 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 recognized and amortized as such if they meet the requirements prescribed by IAS 38 "Intangible Assets" and have useful economic lives over a year. Unless an intangible asset fulfills the aforesaid criteria, it is recognized as an expense of the period in which the related investment was made.

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.

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

3.7. Property and Equipment

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

Items of property and equipment are subsequently stated at revalued amounts. A revalued amount is an asset's fair value at the revaluation date decreased by any subsequent accumulated depreciation and aggregate impairment losses.

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.

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)****3.7. Property and Equipment (Continued)**

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.

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. Depreciation of assets activated during the year commences upon the asset placement in use, i.e. in the month following the month in which a respective assets became available for its intended use.

Useful lives and depreciation rates applied in the current and previous accounting periods are summarized below:

Assets	Useful life (years) 2018	Useful life (years) 2017
Buildings	33	33
Computer equipment	4.16	4.16
Motor vehicles	6.6	6.6
Furniture and other equipment	6.6	6.6

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, except in case of land and buildings that are not used as investment property which is stated at revalued amount in which case impairment loss is presented as a loss on revaluation of assets.

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.

A reversal of an impairment loss is recognized as income immediately, unless the respective asset is carried at a revalued amount, in which instance, the reversal of the impairment loss is treated as a revaluation increase.

As of December 31, 2018, in the assessment of the Company's management, there were no indications that the Company's tangible assets, i.e., property, plant and equipment had suffered impairment.

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)****3.9. 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 material is comprised of the amount billed by suppliers and is determined using the weighted-average cost method.

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

3.10. 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.

Cash and Cash Equivalents

For the purposes of cash flow statement, cash and cash equivalents include cash on hand and balances on accounts held with commercial banks.

Loans and Receivables

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.

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.

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)****3.10. Financial Instruments (Continued)****Measurement of Financial Assets**

Financial instruments are initially measured at market value which includes transaction costs for all types of financial assets and liabilities.

Loans and receivables, as well as held-to-maturity investments are carried at amortized cost using the effective interest method.

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.

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.

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)****3.10. Financial Instruments (Continued)***Impairment of Financial Assets*

All receivables assessed as irrecoverable are provided for in the full amounts matured and uncollected.

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

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

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 banks and 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.

Borrowings with currency clause index are determined in the RSD equivalent of the foreign currency outstanding loan amount. Gains and losses arising from the currency clause application are included in the income statement as finance income and finance expenses for revaluation effects using consumer price index.

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.

3.11. Provisions

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2018

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

4. SUMMARY OF KEY ACCOUNTING ESTIMATES

Presentation of the financial statements requires the Company's management to make the 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 date of preparation of the financial statements, and the 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 and amortization, as well as depreciation and amortization rates are based on the economic useful lives of buildings, equipment and intangible assets. At least once a year, the Company assesses the economic useful lives based on the current estimates.

Also, due to the significance of fixed assets in the total assets of the Company, the impact of any change in these assumptions can be material to the financial position of the Company, as well as to the results of its operations.

4.2. Allowance for Impairment of Receivables

Impairment allowance of 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. The management believes that no additional impairment allowance is required in excess of the allowance already recognized in these financial statements.

4.3. Provisions for Litigations

Generally, provisions are highly judgmental. The Company estimates the likelihood of unfavorable events happening 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 assessments.

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)****4.4. Fair Value**

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.

Estimation of fair value of tangible assets

Fair values of tangible assets are estimated by qualified valuers. In the absence of current prices in an active market for similar properties, the Company considers information from a variety of sources, including:

- a) current prices in an active market for properties of a different nature, condition or location, adjusted to reflect those differences;
- b) recent prices of similar properties on less active markets, with adjustments to reflect any changes in economic conditions since the date of the transactions that occurred at those prices; and
- c) discounted cash flow projections based on reliable estimates of future cash flows, supported by the management's plans and expectations regarding the market fluctuations, such as prices, number of overnight stays, average income per room, occupancy and the like, using discount rates that reflect current market assessments of the uncertainty as to the amount and timing of the cash flows.

The Company's management believes that the net carrying values correspond to the fair values of property, plant and equipment as of the balance sheet date.

5. SALES OF PRODUCTS AND SERVICES

	Year Ended December 31,	
	2018	2017
	<hr/>	<hr/>
Income from the sales to a related party (Note 29)	2,365	197
Accommodation	120,232	101,639
Food	15,405	25,880
Daily rest	46	524
Other	11,797	5,158
	<hr/>	<hr/>
	149,845	133,398
	<hr/> <hr/>	<hr/> <hr/>

6. OTHER OPERATING INCOME

	Year Ended December 31, 2018	2017
Rental income	994	1,666
Other operating income	2.448	4
	<u>3.442</u>	<u>1.670</u>

7. COST OF MATERIALS

	Year Ended December 31, 2018	2017
Food, beverages and other restaurant goods	10,030	11,665
Maintenance materials	4,871	4,287
Write-off of tools and fixtures	2,254	1,070
	<u>17,155</u>	<u>17,022</u>

8. COST OF FUEL AND ENERGY

	Year Ended December 31, 2018	2017
Electricity bills	4,643	4,413
Heating bills	3,014	3,438
Fuel bills	-	20
	<u>7,657</u>	<u>7,871</u>

9. STAFF COSTS

	Year Ended December 31, 2018	2017
Gross salaries	37,478	22,945
Payroll taxes and contributions charged to the employer	6,112	3,980
Considerations payable per service contracts	2,370	3,818
Remunerations to the Supervisory Board and Executive Board members	-	2,270
Other staff costs	2,830	1,672
	<u>48,790</u>	<u>34,685</u>

10. COST OF PRODUCTION SERVICES

	Year Ended December 31,	
	2018	2017
Telecommunications, postage and transportation services	2,290	2,824
Maintenance	8,220	2,408
Rental costs	2,021	646
Marketing and advertising	191	100
Utilities	988	1,056
Laundry (Note 29)	2,619	2,703
Cost of other services	216	569
	<u>16,617</u>	<u>10,306</u>

11. DEPRECIATION, AMORTIZATION AND PROVISIONS

	Year Ended December 31,	
	2018	2017
Depreciation and amortization charge:		
- property and equipment (Note 17)	25,366	24,956
- intangible assets (Note 17)	618	225
	<u>25,984</u>	
Costs of provision	670	-
	<u>26,653</u>	<u>25,181</u>

12. NON-MATERIAL COSTS

	Year Ended December 31,	
	2018	2017
Building maintenance	5,885	1,740
Consultant services	1,302	1,994
Security services	1,046	1,048
IT network maintenance	624	798
Lawyer fees	732	1,141
Other non-production services	3,934	6,647
Entertainment	1,307	1,887
Insurance premiums	1,929	351
Bank charges	2,406	5,152
Membership fees	41	58
Taxes and contributions payable	3,573	3,355
Fees payable to Orbis S.A. under the Management Agreement (Note 29)		
- trademark fees	1,228	299
- base management fees	470	367
- marketing fees	614	150
- management incentive fees	1,989	562
- distribution fees	4,109	3,520
- "Le Club" fees	992	256
Other non-material costs	-	951
	<u>32,180</u>	<u>30,276</u>

13. FINANCE INCOME AND EXPENSES

Finance Income

	Year Ended December 31,	
	<u>2018</u>	<u>2017</u>
Interest income (from third parties)	389	693
Foreign exchange gains and positive currency clause effects (from third parties)	<u>614</u>	<u>6,208</u>
	<u><u>1,003</u></u>	<u><u>6,901</u></u>

Finance Expenses

	Year Ended December 31,	
	<u>2018</u>	<u>2017</u>
Interest expenses (to third parties):		
- per borrowings	11,903	5,689
- other	<u>-</u>	<u>175</u>
	<u>11,903</u>	<u>5,864</u>
Foreign exchange losses and negative currency clause effects (to third parties)	<u>418</u>	<u>1,979</u>
	<u><u>12,321</u></u>	<u><u>7,843</u></u>

14. OTHER INCOME AND EXPENSES

Other income

	Year Ended December 31,	
	<u>2018</u>	<u>2017</u>
Surpluses	1,887	1,018
Reversal of long-term provisions (Note 25)	-	-
Recovery of receivables previously provided for	-	47
Write-off of liabilities	69	69
Other income, elsewhere not mentioned	<u>162</u>	<u>133</u>
	<u><u>2,049</u></u>	<u><u>1,267</u></u>

Other expenses

	Year Ended December 31,	
	<u>2018</u>	<u>2017</u>
Shortages of materials	2,440	1,681
Penalties and fines paid	-	161
Prior years' expenses	-	6
Other expenses, elsewhere not mentioned	<u>5</u>	<u>1,244</u>
	<u><u>2,445</u></u>	<u><u>3,092</u></u>

15. EARNINGS PER SHARE

	Year Ended December 31,	
	2018	2017
Net profit/(loss)	(6,846)	5,708
Weighted average number of shares outstanding	<u>77,311</u>	<u>77,311</u>
Basic earnings per share (in RSD)	<u><u>(88.50)</u></u>	<u><u>73.83</u></u>

In the official form of the income statement of the Serbian Business Registers Agency, it is not possible to present the Company's earnings per share in accordance with IAS 33 - Earnings per Share, since those amounts are below RSD 1,000.

16. INCOME TAXES**a) Components of income taxes**

	Year Ended December 31,	
	2018	2017
Current income tax expense	(862)	(2,967)
Deferred tax benefits	<u>1,848</u>	<u>1,733</u>
	<u><u>986</u></u>	<u><u>(1,234)</u></u>

b) Numerical reconciliation between tax expense and the product of the accounting result multiplied by the statutory tax rate

	In thousand of dinars	
	2018	2017
Profit/(loss) before taxes	(7,832)	6,942
Income tax at the statutory rate of 15%	<u>1,175</u>	<u>1,041</u>
Tax effects of expenses not recognized for tax purposes	(313)	193
	<u><u>862</u></u>	<u><u>1,234</u></u>

c) Deferred tax liabilities

Deferred tax liabilities of RSD 55,590 thousand, net as of December 31, 2018 (December 31, 2017: RSD 57,438 thousand) relate to the temporary difference between the amount at which property, equipment and intangible assets are recognized for the tax statement purposes and the carrying amounts of these assets.

Movements on the net deferred tax liabilities were as follows:

16. INCOME TAXES (continued)

Movements on the net deferred tax liabilities were as follows:

	<u>2018</u>	<u>2017</u>
Balance, January 1	57,438	59,171
Recognized within other comprehensive income		
- effect of impairment of land (Notes 17 and 24)	-	-
Recognized in the income statement		
- temporary differences on property, equipment and intangible assets	(1,858)	(1,733)
Balance, December 31	<u>55,590</u>	<u>57,438</u>

17. PROPERTY, PLANT, EQUIPMENT AND INTANGIBLE ASSETS

Movements on property, equipment and intangible assets are provided in the following table:

	<u>Land</u>	<u>Buildings</u>	<u>Equipment and Other Assets</u>	<u>Investments in Progress; Advances Paid</u>	<u>Total</u>	<u>Intangible Assets</u>
Cost						
Balance at January 1, 2017	147,937	680,486	40,936	62	869,421	1,173
Additions	-	-	7,069	-	7,069	5,026
Balance, December 31, 2017	<u>147,937</u>	<u>680,486</u>	<u>48,005</u>	<u>62</u>	<u>876,490</u>	<u>6,199</u>
Balance at January 1, 2018	147,937	680,486	48,005	62	876,490	6,199
Increases 2018	-	786	5,794	7,809	14,391	276
Balance, December 31, 2018	<u>147,937</u>	<u>681,272</u>	<u>53,801</u>	<u>7,871</u>	<u>890,881</u>	<u>6,475</u>
Accumulated Depreciation/Amortization						
Balance at January 1, 2018	-	155,965	27,260	-	183,255	607
Charge for the year (Note 11)	-	20,415	4,541	-	24,956	225
Balance, December 31, 2017	<u>-</u>	<u>176,380</u>	<u>31,801</u>	<u>-</u>	<u>208,181</u>	<u>832</u>
Balance at January 1, 2018	-	176,380	31,801	-	208,181	831
Charge for the year (Note 11)	-	20,443	4,923	-	25,366	618
	<u>-</u>	<u>196,823</u>	<u>36,724</u>	<u>-</u>	<u>233,547</u>	<u>1,450</u>
Net book value						
- December 31, 2018	<u>147,937</u>	<u>504,106</u>	<u>16,204</u>	<u>62</u>	<u>668,309</u>	<u>5,368</u>
- December 31, 2017	<u>147,937</u>	<u>484,449</u>	<u>17,077</u>	<u>7,871</u>	<u>657,334</u>	<u>5,025</u>

As a collateral for the loan approved by the National Bank of Greece SA, London Branch, the Company placed under first class mortgage its building, with the net book value of RSD 484,449 thousand as of December 31, 2018.

18. LONG-TERM FINANCIAL INVESTMENTS

Other long-term financial investments totaling RSD 19,430 thousand as of December 31, 2017) relate to cash funds deposited with Vojvođanska banka a.d., Novi Sad (EUR 164,000) acting as an agent regarding the loan approved by the National Bank of Greece SA, London Branch (Note 26).

The Supplementary Loan Agreement executed by and between Excelsior a.d., Beograd (the borrower), National Bank of Greece S.A., London Branch (the lender) and Vojvođanska banka a.d., Novi Sad (the agent for security and the payment agent) on June 30, 2017 stipulates that the originally deposited cash funds, the amount of EUR 100,000 shall be used for investment (the required capital expenditures for software update and upgrade and rebranding of the Hotel) and that the amount of EUR 164,000 shall be retained as the guarantee deposit that shall accrue interest at the rate equal to 50% of the loan's interest rate.

19. INVENTORIES

	December 31, 2018	December 31, 2017
Materials	613	1,449
Spare parts	61	61
Tools and fixtures	1,355	1,192
	<u>2,029</u>	<u>2,702</u>
Advances paid to suppliers	162	1,096
	<u>2,191</u>	<u>3,798</u>

20. TRADE RECEIVABLES

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Domestic trade receivables – other related parties (Note 29)	230	237
Domestic trade receivables	1,395	1,609
Foreign trade receivables	<u>1,396</u>	<u>3,461</u>
	3,021	5,307
Less: Impairment allowance of foreign trade receivables	<u>-</u>	<u>(79)</u>
	<u><u>3,021</u></u>	<u><u>5,228</u></u>

21. OTHER RECEIVABLES

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Receivables from employees	29	32
Receivables for prepaid income taxes	4,099	4,099
Other current receivables	<u>1,637</u>	<u>978</u>
	5,765	5,109
	<u><u>5,765</u></u>	<u><u>5,109</u></u>

22. CASH AND CASH EQUIVALENTS

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
RSD current account	5,504	4,596
Cash on hand in RSD	-	-
Cash on hand in foreign currencies	-	-
Foreign currency accounts	<u>5,293</u>	<u>17,864</u>
	10,797	22,460
	<u><u>10,797</u></u>	<u><u>22,460</u></u>

23. VALUE ADDED TAX RECEIVABLE AND PAYABLE

As of December 31, 2018, the Company reported value added tax payable in the amount of RSD 3.018 thousand.

24. ISSUED CAPITAL AND REVALUATION RESERVES

The Company's share capital as recorded in the books entirely comprised common stock shares. As of December 31, 2018, the share capital was divided into 77,311 common shares with individual par value of RSD 1,000. All shares issued are fully paid in.

The Company's majority owner is Lampsia AE, Athens, Greece, holding 80.33% of shares and voting power. The Company's shareholder structure at December 31, 2018 was as follows:

<u>Shareholder</u>	<u>Share Count</u>	<u>RSD '000</u>	<u>%</u>
Lampsia AE Athens, Greece	62,104	62,104	80.33%
Other shareholders – private individuals	1,755	14,626	2.28%
Excelsior	13,452	13,452	17.39%
	<u>77,311</u>	<u>77,311</u>	<u>100.00%</u>

The Company's shareholder structure at December 31, 2017 was as follows:

<u>Shareholder</u>	<u>Share Count</u>	<u>RSD '000</u>	<u>%</u>
Lampsia AE Athens, Greece	62,104	62,104	80.33%
Other shareholders – private individuals	14,626	14,626	18.92%
Collective, i.e., custody account	581	581	0.75%
	<u>77,311</u>	<u>77,311</u>	<u>100.00%</u>

The Company's revaluation reserves totaling RSD 411,955 thousand relate to revaluation reserves resulting from the appraisal of property and equipment.

Changes in equity during 2018 and 2017 were as follows:

	<u>Basic capital</u>	<u>Premium</u>	<u>Repurchase of own shares</u>	<u>Loss</u>	<u>Retained Earnings</u>	<u>Revaluation Reserves</u>	<u>Total</u>
Balance, January 1, 2017	77,311	-	-	(45,104)	71,518	411,955	515,680
Absorption of prior years' losses	-	-	-	45,104	(45,104)	-	-
Profit for the year	-	-	-	-	5,708	-	5,708
Balance, December 31, 2017	<u>77,311</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>32,122</u>	<u>411,955</u>	<u>521,388</u>
Balance, January 1, 2018	77,311	-	-	-	32,122	411,955	521,388
Repurchase of own shares	-	(114,351)	(13,452)	-	-	-	(127,803)
Reduction for the amount of emission premium	-	114,351	-	(82,229)	(32,122)	-	-
Loss for the year	-	-	-	(6,846)	-	-	(6,846)
Balance, December 31, 2018	<u>77,311</u>	<u>-</u>	<u>(13,452)</u>	<u>(89,075)</u>	<u>-</u>	<u>411,955</u>	<u>386,739</u>

25. LONG-TERM PROVISIONS

As of December 31, 2018, the Company stated provisions for litigations in the amount of RSD 525 thousand (December 31, 2017: RSD 525 thousand) (Note 31).

As of December 31, 2018, based on report of actuary, the Company stated provisions for employee retirement and other benefits in the amount of RSD 670 thousand (Note 11).

26. LONG-TERM LIABILITIES

		RSD '000	
	EUR	December 31, 2018	December 31, 2017
National Bank of Greece S.A., London Bran	829,000.00	98,032	117,644
BMP a.d., Beograd	<u>1,100,287.85</u>	<u>129,908</u>	<u>-</u>
	1,929,287.85	227,940	117,644
Current portion (Note 27)	<u>(200,000)</u>	<u>(23,639)</u>	<u>(19,430)</u>
		<u>204,301</u>	<u>98,214</u>

Long-term loans were approved by the National Bank of Greece S.A., London Branch to the Company (Original Loan Agreement dated April 1, 2009 was amended through execution of Supplementary Loan Agreements dated March 29, 2010, July 2012, July 18, 2013 and June 30, 2017) with the repayment due date up to June 30, 2022 (with a grace period from June 5, 2017 to December 22, 2017) at the higher of the minimum interest rate of 5% per annum increased by a 5.3% margin annually and a percentage rate that, added to the effective EURIBOR, equals the minimum interest rate. The loans shall be repaid in quarterly installments. The loans are securitized with mortgage liens instituted over the Company's building (Note 17).

On March 12, 2018, BMP a.d., Beograd approved a loan, in the amount of 150,000,000.00 rsd, with interest rate of 3.42% per anum and repayment period by April 1, 2020. The loan was approved for the purchase of shares. The funds were withdrawn on April 4, 2018 in the amount of RSD 130,000,000.00 (1,100,287.85 EUR) and the purchase of 13,452 shares was made.

Maturities of long-term borrowings are provided in the table below:

		RSD '000	
	EUR	December 31, 2018	December 31, 2017
- matured liabilities	-	-	-
- up to 1 year	200,000	23,639	19,430
- from 1 to 2 years	1,336,287.85	157,851	51,654
- from 2 to 3 years	<u>393,000</u>	<u>46,560</u>	<u>46,560</u>
	<u>1,929,287.85</u>	<u>227,940</u>	<u>117,644</u>

27. SHORT-TERM FINANCIAL LIABILITIES

	December 31, 2018	December 31, 2017
Current portion of long-term borrowings (Note 26)	23,639	19,430
Short-term borrowings approved by AIK banka a.d., Beograd (former Alpha Bank a.d., Beograd):		
- principal	22,457	22,510
- interest		72
	<u>46,096</u>	<u>42,012</u>

In December 2016, AIK banka a.d., Beograd (former Alpha Bank a.d., Beograd) approved to the Company a short-term loan for working capital in the amount of EUR 82,000 in RSD equivalent at an interest rate of 12-month EURIBOR increased by 4.35% p.a. Annex to the Loan Agreement no. 2 dated July 25, 2017 extended the loan repayment due date to January 31, 2018.

On March 28, 2017, AIK banka a.d., Beograd approved the Company another short-term loan in the amount of EUR 108,000 in RSD equivalent. The loan was initially approved with a maturity up to July 25, 2017 and then Annex no. 1 to the Loan Agreement extended the repayment period up to January 31, 2018. The interest rate applied equals 12-month EURIBOR increased by 4.35% p.a..

Both loans are securitized with short-term foreign currency deposits of the Company's related party places with AIK banka a.d., Beograd.

28. TRADE PAYABLES

	December 31, 2018	December 31, 2017
Trade payables:		
- other domestic related parties (Note 29)	234	253
- domestic	2,576	3,334
- foreign	1,593	3,387
Other accounts payable	<u>1,656</u>	<u>1,785</u>
	<u>6,059</u>	<u>8,759</u>

29. RELATED PARTY DISCLOSURES

In its regular course of business, the Company enters into transactions with its related parties. The transactions between the Company and its related parties are governed by relevant contracts and performed at arm's length.

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
Trade receivables (note 20)		
- BMP a.d., Beograd	230	237
Total receivables	230	237
Trade payables (Note 28)		
- BMP a.d., Beograd	234	253
Long-term liabilities (Note 26)		
- BMP a.d., Beograd	129,908	-
Total liabilities	130,142	253
Liabilities, net	(129,912)	(16)

29. 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.	2017.
Sales of products and services (Note 5):		
- BMP a.d., Beograd	-	197
Total income	-	197
Cost of production services:		
- BMP a.d., Beograd	2.619	2,703
Non-material costs:		
- ORBIS S.A. (Note 12)	9.402	5,154
- BMP a.d., Beograd	-	-
Total expenses	12.021	7,857
Expenses, net	(12.021)	(7,660)

30. 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 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.

30. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)**Capital Risk Management (continued)**

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

	December 31, 2018	December 31, 2017
Debt a)	260,505	140,226
Cash and cash equivalents	10.797	22,460
Net debt	249,708	117,766
Equity b)	386.739	521,388
Debt to equity ratio	0.67	0.23

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

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		
Other long-term financial investments	19.384	19,430
Trade receivables	3.021	5,228
Cash and cash equivalents	10.797	22,460
	33.202	47,118
Financial liabilities		
Long-term borrowings, domestic	129,908	-
Long-term borrowings, foreign	74.393	98,214
Short-term borrowings, domestic	22,457	22,582
Trade payables	4.403	6,974
Other short-term financial liabilities	23.639	19,430
	254,800	147,200

Basic financial instruments held by the Company comprise cash and cash equivalents, trade receivables and trade payables 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.

30. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)**Capital Risk Management (continued)****Financial Risk Management (continued)**

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 changes in the manner in which the Company alleviates and measures the exposure.

Foreign Currency Risk

The Company is exposed to foreign currency risks inherent in cash and cash equivalents, other longterm financial investments, long-term foreign and short-term domestic borrowings and trade payables denominated in foreign currency. It 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:

	Assets		Liabilities	
	December 31, 2018	December 31, 2017	December 31, 2018	December 31, 2017
EUR	208,783	40.675	2,115,285	143.613
	208,783	40.675	2,115,285	143.613

30. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

Market Risk (Continued)**Foreign Currency Risk (Continued)**

The Company is sensitive to the movements in the EUR 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 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.

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
EUR	<u>190.650</u>	<u>10.294</u>
Impact on the current period's profit or loss	<u><u>190.650</u></u>	<u><u>10.294</u></u>

Interest Rate Risk

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

The carrying values of financial assets and liabilities at the end of the period under review and grouped by the level of interest rate risk are presented in the following table:

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Financial assets		
Non-interest bearing		
Trade receivables	3.021	5,228
Cash and cash equivalents	<u>10.797</u>	<u>22.460</u>
	<u>13.818</u>	<u>27.688</u>
Variable interest rate		
Other long-term financial investments	<u>19.384</u>	<u>19.430</u>
	<u><u>33.202</u></u>	<u><u>47.118</u></u>
Financial liabilities		
Non-interest bearing		
Trade payables	<u>4.403</u>	<u>6.974</u>
	<u>4.403</u>	<u>6.974</u>
Variable interest rate		
Long-term borrowings, foreign	204.301	98,214
Short-term borrowings, domestic	22.457	22,582
Other short-term financial liabilities	<u>23.639</u>	<u>19,430</u>
	<u>250.397</u>	<u>140,226</u>
	<u><u>254.800</u></u>	<u><u>147,200</u></u>

30. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

Market Risk (Continued)***Interest Rate Risk (Continued)***

The sensitivity analysis presented in the following text has been established based on the Company's exposure to interest rate risk inherent in non-derivative instruments as of the balance sheet date. For liabilities with variable interest rate, the analysis has been prepared under the assumption that the outstanding balance of assets and liabilities as of the balance sheet date remained constant throughout the year. The increase or decrease in interest rates of 1 percentage point represents the fluctuation reasonably anticipated by the management. Had interest rate been 1 percentage point higher/lower and all the other variables remained unchanged, the Company's profit for the year ended December 31, 2018 would have decreased/increased by RSD 2,310 thousand (December 31, 2017: by RSD 1,208 thousand). Such situation is attributed to the Company's exposure to the variable interest rates applied to long-term borrowings and other long-term liabilities.

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.

The most significant customers are as follows:

	December 31, 2018	December 31, 2017
Kuoni Global Travel Services	507	194
Telenor	10	299
Travco House	16	382
JacTravel Limited	483	1,166
		522
Other customers	<u>2.005</u>	<u>2.665</u>
	<u><u>3.021</u></u>	<u><u>5.228</u></u>

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

	Gross Exposure	Impairment Allowance	Net Exposure
Trade receivables, matured and provided for	-	-	-
Trade receivables, not matured	3.021	-	3.021
	<u>3.021</u>	<u>-</u>	<u>3.021</u>

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2018

*All amounts expressed in thousands of RSD, unless otherwise stated.***30. 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, matured and provided for	79	(79)	-
Trade receivables, not matured	<u>5,228</u>	<u>-</u>	<u>5,228</u>
	<u>5,307</u>	<u>(79)</u>	<u>5,228</u>

Trade receivables, not matured

Trade receivables, not matured at December 31, 2018 in the amount of RSD 3,021 thousand mainly relate to receivables from the sales of services in the last week of 2018. These receivables mainly mature within 8 days from the invoice date, depending on the contractual terms of payment.

Trade payables as of December 31, 2018 were stated as amounting to RSD 4,403 thousand (December 31, 2017: RSD 6.974 thousand). Suppliers do not charge penalty interest on outstanding liabilities, whereby the Company settled its dues to suppliers within the agreed terms, in accordance with the financial risk management policies.

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 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.

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2018

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

30. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

Credit Risk (Continued)

Managing Trade Receivables (Continued)

Maturities of Financial Assets

	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	13,818	-	-	-	-	13,818
Variable interest rate						
- principal	-	-	-	19,384	-	19,384
- interest	-	-	-	485	-	485
	<u>13,818</u>	<u>-</u>	<u>-</u>	<u>19,869</u>	<u>-</u>	<u>33,687</u>

	December 31, 2016					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	27,688	-	-		-	27,688
Variable interest rate						
- principal	-	-	-	19,430	-	19,430
- interest	-	-	-	486	-	486
	<u>27,688</u>	<u>-</u>	<u>-</u>	<u>19,916</u>	<u>-</u>	<u>47,604</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.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2018

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

30. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

Credit Risk (Continued)

Maturities of Financial Liabilities

	In thousand of dinars 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	4,403	-	-	-	-	4,403
Variable interest rate						
- principal	-	-	46,096	204,301	-	250,397
- interest	-	-	5,948	17,962	-	23,910
	4,403	-	52,044	222,263	-	278,710

	In thousand of dinars December 31, 2016					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	6,974	-	-	-	-	6,974
Variable interest rate						
- principal	-	-	42,012	98,214	-	140,226
- interest	-	-	5,421	8,635	-	14,056
	6,974	-	47,433	106,849	-	161,256

Fair Value of Financial Instruments

The following table provides the present values of the Company's financial assets and liabilities and their fair values as of December 31, 2017 and 2016:

	December 31, 2018		December 31, 2017	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial assets				
Other long-term financial investments	19.348	19.348	19,430	19,430
Trade receivables	3.021	3.021	5,228	5,228
Cash and cash equivalents	10.797	10.797	22,460	22,460
	33.202	33,202	47,118	47,118
Financial liabilities				
Long-term borrowings, foreign	204.301	204.301	98,214	98,214
Short-term borrowings, domestic	22.457	22.457	22,582	22,582
Other short-term financial liabilities	23.639	23.639	19,430	19,430
Trade payables	4.403	4.401	6,974	6,974
	254.800	254.800	147,200	147,200

NOTES TO THE FINANCIAL STATEMENTS**December 31, 2018***All amounts expressed in thousands of RSD, unless otherwise stated.***30. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)***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.

31. LITIGATION

As of December 31, 2018, the Company was involved in several legal suits on different grounds. Based on the opinion of the Company's attorney at law and the management's estimates from prior years, the Company accrued a liability in respect thereof in the amount of RSD 525 thousand (Note 25).

32. CONTINGENT LIABILITIES

Land and building property stated as of December 31, 2018 in the amount of RSD 694,058 are in the Company's ownership based on denationalization of property performed in a prior period. Pursuant to the Agreement on Acquisition of the Socially-Owned Capital executed with the Serbian Privatization Agency, the majority owner is also aware that the Company's assets include nationalized property and agrees to treat such property pursuant to the relevant law provisions. The Company's management holds that the Company will not suffer adverse effects arising from resolution of the nationalized property issue or incur outflows of resources in this respect.

33. EVENT AFTER THE DATE OF BALANCE SHEET

There was no event after the balance sheet date.

34. 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.

35. EXCHANGE RATES

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

	December 31, 2018	December 31, 2017
EUR	118,1946	118,4727

APPENDICES

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

	<u>2018</u>	<u>2017</u>
Operating income	1,296	1,113
Sales of products and services		
Sales of products and services to other related parties in domestic market	-	2
Sales of products and services in domestic market	1,267	1,097
	<u>1,267</u>	<u>1,099</u>
Other operating income	29	14
Operating expenses	(1,260)	(1,032)
Revenue from undertaking for own purposes	1	-
Cost of materials	(145)	(140)
Cost of fuel and energy	(65)	(65)
Staff costs	(413)	(286)
Cost of production services	(140)	(85)
Depreciation/amortization charge	(220)	(207)
Long term provisions	(6)	-
Non-material costs	(272)	(249)
	<u>(1,260)</u>	<u>(1,032)</u>
Profit from operations	36	81
Finance income	8	57
Interest income (from third parties)	3	6
Foreign exchange gains and positive currency clause effects (third parties)	5	51
	<u>8</u>	<u>57</u>
Finance expenses	(105)	(64)
Interest expenses (to third parties)	(101)	(48)
Foreign exchange losses and negative currency clause effects (to third parties)	(4)	(16)
	<u>(105)</u>	<u>(64)</u>
Loss from financing activities	(97)	(7)
Other income	17	10
Other expenses	(21)	(25)
	<u>17</u>	<u>10</u>
Profit/(loss) from continuing operations before taxes	(65)	59
Net loss from discontinued operations, effects of changes in accounting policies and prior years' error adjustment	(4)	-
	<u>(69)</u>	<u>59</u>
Profit/(loss) before taxes	(69)	59
Current income tax expense	(7)	(24)
Deferred tax benefits	16	14
	<u>9</u>	<u>14</u>
NET PROFIT/(LOSS) FOR THE YEAR	(60)	49

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)

	<u>December 31,</u> <u>2018</u>	<u>December 31,</u> <u>2017</u>
ASSETS		
Non-current assets	5,770	5,850
<i>Intangible assets</i>	43	45
Concessions, patents, licenses, trademarks, software and other rights	43	45
<i>Property, plant and equipment</i>	5,563	5,641
Land	1,252	1,249
Buildings	4,099	4,255
Plant and equipment	144	136
Other property, plant and equipment	1	1
Advances paid for property, plant and equipment	67	-
<i>Long-term financial investments</i>	164	164
Other long-term investments	164	164
Current assets	188	313
<i>Inventories</i>	18	32
Materials, spare parts, small tools and fixtures	17	23
Advances paid for inventories and services	1	9
<i>Trade receivables</i>	26	45
Domestic – other related parties	-	2
Domestic	2	14
Foreign – other related parties	12	-
Foreign	12	29
Other receivables	49	43
Cash and cash equivalents	91	190
Prepayments	4	3
TOTAL ASSETS	5,958	6,163

(Continued)

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

	December 31, 2018	December 31, 2017
EQUITY AND LIABILITIES		
Equity	3,275	4,401
Share capital	979	979
Repurchase own shares	(114)	-
Revaluation reserves arising from revaluation of intangible assets, property, plant and equipment	5,159	5,159
Net profit for the year	-	49
Retained earnings - prior years	-	220
Accumulated losses - prior years	(698)	-
Loss for the year	(60)	-
Translation reserves	(1,991)	(2,006)
Non-current provisions and liabilities	1,738	833
Long-term provisions	10	4
Provisions for litigations – labor disputes	4	4
Other long-term provisions	6	-
Long-term liabilities	1,728	829
Liabilities to other related parties	1,099	-
Long-term borrowings, foreign	629	829
Deferred tax liabilities	470	485
Current liabilities	475	444
Short-term financial liabilities	390	355
Short-term borrowings, domestic	190	191
Other short-term financial liabilities	200	164
Advances, deposits and retainers received	1	7
Trade payables	51	74
Domestic – other related parties	2	2
Domestic	22	28
Foreign	13	29
Other account trade payables	14	15
Value added tax payable	26	8
Other taxes, contributions and duties payable	7	-
TOTAL EQUITY AND LIABILITIES	5,958	6,163

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: 81.2203
- Treasury shares purchased at December 31, 2018 was translated using the exchange rate at the date of transactions in the period from April 12, 2018 up to May 31, 2018
- 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: 83.8286.
- 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.