

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

**Financial Statements
Year Ended December 31, 2019 and
Independent Auditors' Report**

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This is a translation of the Auditors' Report issued in the Serbian language

INDEPENDENT AUDITORS' REPORT

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

Opinion

We have audited the financial statements (pages 4 to 43) of *Beogradsko Mešovito Preduzeće a.d., Beograd* (hereinafter: the "Company"), which comprise the balance sheet as at December 31, 2019, 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 notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements, in all material respects, give a true and fair view of the financial position of *Beogradsko Mešovito Preduzeće a.d., Beograd* as at December 31, 2019, and of its financial performance and its cash flows for the year then ended in accordance with the accounting regulations of the Republic of Serbia.

Basis for Opinion

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

Material Uncertainty Related to Going Concern

We draw attention to Note 2.3 disclosing that the accompanying financial statements have been prepared assuming that the Company will continue as a going concern. The rapid development of the Covid-19 virus and its social and economic impact in Serbia and globally resulted in a temporary shut-down of the hotel and reallocation of employees on temporary paid leaves. Although the Company has applied for the Republic of Serbia economic assistance program to mitigate the damage caused by the COVID-19 epidemic and reopened the hotel in early May 2020, there is uncertainty with regard to the severity of its impact on the Company's future operations. At this stage management is not able to reliably estimate the impact as events are unfolding day-by-day. These conditions indicate the existence of a material uncertainty which may cast significant doubt about the Company's ability to continue as a going concern. These financial statements do not include any adjustments that might result from this uncertainty. Our opinion is not qualified in respect of this matter.

(Continued)

INDEPENDENT AUDITORS' REPORT

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

Emphasis of Matter

We draw attention to Note 39 to the financial statements, disclosing that the aggregate amount claimed in legal suits filed against the Company totaled RSD 294,057 thousand as of December 31, 2019, excluding any default interest that could be assigned upon completion of the proceedings. At the reporting date the Company made provisions for contingent losses that may arise from the aforesaid legal suits in the amount of RSD 138,231 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 contingent 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.

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

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

(Continued)

INDEPENDENT AUDITORS' REPORT

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

Auditor's Responsibilities for the Audit of the Financial Statements (Continued)

As part of an audit in accordance with the standards on auditing applicable in the Republic of Serbia and the Law on Audit of the Republic of Serbia, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

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

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

Marija Radulović
Certified Auditor

Deloitte d.o.o., Beograd
Terazije 8, Belgrade
July 27, 2020

INCOME STATEMENT
Year Ended December 31, 2019
(Thousands of RSD)

	<u>Note</u>	<u>2019</u>	<u>2018</u>
Operating income			
Sales of goods in domestic market	5	84,033	74,073
Sales of products and services to other related parties in domestic market	5	2,733	2,740
Sales of products and services in domestic market	5	1,271,711	1,195,848
Other operating income	6	48,440	54,432
		<u>1,406,917</u>	<u>1,327,093</u>
Operating expenses			
Cost of commercial goods sold	7	(18,298)	(15,182)
Cost of materials	7	(158,481)	(164,531)
Cost of fuel and energy	8	(70,875)	(69,265)
Staff costs	9	(382,104)	(374,730)
Cost of production services	10	(103,830)	(95,577)
Depreciation/amortization charge	11	(154,297)	(161,184)
Long-term provisions	12	(35,568)	(6,112)
Non-material costs	13	(221,518)	(206,934)
		<u>(1,144,971)</u>	<u>(1,093,515)</u>
Profit from operations		<u>261,946</u>	<u>233,578</u>
Finance income			
Finance income from other related parties	14	7,668	3,370
Interest income (from third parties)	14	8,893	6,274
Foreign exchange gains and positive currency clause effects (third parties)	14	16	5,278
		<u>16,577</u>	<u>14,992</u>
Finance expenses			
Finance expenses to other related parties	15	(1,055)	(8,174)
Other finance expenses	15	-	-
Interest expenses (to third parties)	15	(32)	(62)
Foreign exchange losses and negative currency clause effects (to third parties)	15	(1,699)	(448)
		<u>(2,786)</u>	<u>(8,684)</u>
Profit from financing activities		<u>13,791</u>	<u>6,238</u>
Other income	16	2,015	634
Other expenses	17	(4,589)	(6,841)
Profit from continuing operations before taxes		<u>273,163</u>	<u>233,609</u>
Net profit from discontinued operations, effects of changes in the accounting policies and prior years' error adjustment		<u>-</u>	<u>1,259</u>
Current income tax expense	18a	(52,002)	(40,388)
Deferred tax benefits	18a	10,714	4,710
NET PROFIT FOR THE YEAR		<u><u>231,875</u></u>	<u><u>199,190</u></u>

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

STATEMENT OF OTHER COMPREHENSIVE INCOME
Year Ended December 31, 2019
(Thousands of RSD)

	2019	2018
Net operating result		
Net profit for the year	231,875	199,190
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	-	-
	-	-
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	-	-
	-	-
Other positive/(negative) comprehensive income, gross	-	-
Taxes payable on other comprehensive income	-	-
Other positive/(negative) comprehensive income, net	-	-
Total positive comprehensive income for the year, net	231,875	199,190

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

BALANCE SHEET
As of December 31, 2019
(Thousands of RSD)

	<u>Note</u>	<u>December 31, 2019</u>	<u>December 31, 2018</u>
ASSETS			
Non-current assets			
<i>Intangible assets</i>			
		11,157	14,169
Concessions, patents, licenses, trademarks, software and other rights			
	19	3,997	5,256
Other intangible assets			
	19	7,160	8,913
Property, plant and equipment			
		2,223,427	2,277,136
Land			
	20	584,640	584,640
Buildings			
	20	1,391,748	1,452,374
Plant and equipment			
	20	237,554	228,820
Other property, plant and equipment			
	20	-	1,314
Advances paid for property, plant and equipment			
	20	9,485	9,988
Long-term financial investments			
Long-term financial investments to parent entities and other subsidiaries			
	21	120,529	130,048
Current assets			
		1,192,040	505,987
Inventories			
		57,022	39,558
Materials, spare parts, small tools and fixtures			
	22	31,451	30,082
Goods			
	22	10,596	6,379
Advances paid for inventories and services			
	22	14,975	3,097
Trade receivables			
		27,763	23,508
Domestic – other related parties			
	23	290	233
Domestic			
	23	27,473	23,275
Receivables from specific operations			
		2	57
Other receivables			
	24	3,881	7,333
Short-term financial investments			
Other short-term financial investments			
	25	209,386	182,457
Cash and cash equivalents			
	26	887,620	247,636
Prepayments			
	27	6,366	5,438
Total assets		3,547,153	2,927,340
Off-balance sheet Assets		44	56

(Continued)

BALANCE SHEET (Continued)
As of December 31, 2019
(Thousands of RSD)

	<u>Note</u>	<u>December 31, 2019</u>	<u>December 31, 2018</u>
EQUITY AND LIABILITIES			
Equity			
Share capital	28	2,702,379	2,648,614
Treasury shares purchased	28	(145,923)	(145,923)
Reserves	28	361,669	361,669
Current year's retained earnings	28	231,875	199,190
Prior years' retained earnings	28	948,439	749,249
Prior years' accumulated losses	28	(1,217,950)	(1,217,950)
		405,378	114,004
Non-current provisions and liabilities			
Provisions for retirement and other employee benefits		9,767	6,112
Provisions for litigations	29	138,231	106,318
Long-term borrowing, domestic	30	254,000	-
Finance lease liabilities	30	-	487
Other long-term liabilities	30	3,380	1,087
Deferred tax liabilities		84,213	94,927
Current liabilities		177,073	69,795
Short-term financial liabilities			
Other short-term financial liabilities	31	63,974	950
		63,974	950
Advances, deposits and retainers received	32	20,289	3,791
Trade payables		24,696	15,186
Domestic – other related parties		-	237
Foreign – other related parties	29	7,683	6,934
Domestic	29	13,419	7,831
Foreign	29	3,594	184
Other current liabilities	33	1,581	1,833
Value added tax payable	34	11,484	8,384
Other taxes, contributions and duties payable		14,275	455
Accruals	35	40,774	39,196
Total equity and liabilities		3,547,153	2,927,340
Off-balance sheet Liabilities		44	56

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

STATEMENT OF CHANGES IN EQUITY
Year Ended December 31, 2019
(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, 2018						
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 previous 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>
Movements in the current year – 2019						
a) debit turnover	-	-	-	-	-	
b) credit turnover	<u>-</u>	<u>-</u>	<u>-</u>	<u>231,875</u>	<u>-</u>	<u>231,875</u>
Closing balance at December 31, 2019						
a) debit balance	-	-	1,217,950	-	145,923	
b) credit balance	<u>2,702,379</u>	<u>361,669</u>	<u>-</u>	<u>1,180,314</u>	<u>-</u>	<u>2,880,489</u>

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

STATEMENT OF CASH FLOWS
Year Ended December 31, 2019
(Thousands of RSD)

	<u>2019</u>	<u>2018</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
<i>Cash inflows from operating activities</i>		
Cash receipts from customers	1,562,092	1,429,108
Interest received from operating activities	8,893	6,274
Other cash receipts from operating activities	58,947	65,727
	<u>1,629,932</u>	<u>1,501,109</u>
<i>Cash outflows from operating activities</i>		
Cash paid to suppliers	(655,295)	(625,355)
Cash paid to and on behalf of employees	(382,104)	(374,730)
Interest paid	(32)	(62)
Income taxes paid	(33,340)	(48,752)
Other public duties paid	(118,898)	(115,938)
	<u>(1,189,669)</u>	<u>(1,164,837)</u>
Net cash generated by operating activities	<u>440,263</u>	<u>336,272</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
<i>Cash inflows from investing activities</i>		
Other financial investments (net inflows)	102,457	-
	<u>102,457</u>	<u>-</u>
<i>Cash outflows from investing activities</i>		
Purchases of intangible assets, property, plant and equipment	(99,912)	(64,212)
Other financial investments, net outflows	(120,529)	(289,763)
	<u>(220,441)</u>	<u>(353,975)</u>
Net cash used in investing activities	<u>(117,984)</u>	<u>(353,975)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
<i>Cash inflows from financing activities</i>		
Long-term borrowings (net inflows)	254,000	-
Short-term borrowings (net inflows)	63,500	27
Other long-term liabilities, net inflows	2,293	208
	<u>319,793</u>	<u>235</u>
<i>Cash outflows from financing activities</i>		
Purchase of own treasury shares and equity interests	-	(297,499)
Short-term borrowings, net outflows	(476)	-
Finance lease liabilities	(486)	(955)
	<u>(962)</u>	<u>(298,454)</u>
Net cash generated/(used) in financing activities	<u>318,831</u>	<u>(298,219)</u>
Net increase/(decrease) in cash and cash equivalents	<u>641,110</u>	<u>(315,922)</u>
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	247,636	566,893
Foreign exchange gains on translation of cash	16	5,287
Foreign exchange losses on translation of cash	(1,142)	(8,622)
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>887,620</u>	<u>247,636</u>

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

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2019

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.

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 Xenodoheion 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, 2019 the Company had 206 employees (December 31, 2018: 207 employees).

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

2.1. Basis of Preparation and Presentation of the Financial Statements

Legal entities and entrepreneurs incorporated in the Republic of Serbia are required to maintain their books of account, to recognize and measure assets and liabilities, income and expenses, and to prepare, present, submit and disclose financial statements in conformity with the Law on Accounting (hereinafter: the “Law”, Official Gazette of the Republic of Serbia nos. 62/2013 and 30/2018), and other effective bylaws and regulations. As a medium-sized entity, the Company has elected 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.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2019

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 the Financial Statements (Continued)

The Ministry enacted 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") to adopt and publish 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, have all been 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 no. 95/2014) and in the format prescribed by the Rules on the Content and Form of the Financial Statements for Companies, Cooperatives and Entrepreneurs (Official Gazette of RS nos. 95/2014 and 144/2014), which departs 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 officially 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.

On November 21, 2019, the Ministry of Finance of the Republic of Serbia enacted a decision published in the Official Gazette of RS no. 92/2019 dated December 25, 2019 to adopt and publish the translation of the basic texts of the IFRS and IAS, the Conceptual Framework issued by IASB, and the related interpretations issued by IFRIC. Based on this Decision on Adoption of the Translations, the Conceptual Framework, IAS, IFRS, IFRIC and related interpretations that have been translated are to be applied to the financial statements prepared as of December 31, 2020, although entities may adopt the translated standards in preparation of the financial statements prepared as of December 31, 2019 as well.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2019

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 the Financial Statements (Continued)

At its session held on October 10, 2019, the National Assembly of the Republic of Serbia adopted the Bill on Accounting. As a result, the Law on Accounting was adopted and published in the Official Gazette of RS no. 73/2019. The new Law on Accounting shall be in force as from January 1, 2020, except for some provisions with subsequent application.

In the preparation of the accompanying financial statements, the Company did not apply IFRS and IAS the provisions of which permit early adoption or those standards the translation of which has not been adopted and published by the Ministry of Finance.

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 on February 14, 2020.

These financial statements are prepared for the purpose of compliance with legal requirements. The Company is legally required to obtain an independent audit of these financial statements. The audit scope comprehends the statutory financial statements taken as a whole and does not provide assurance on any individual line item, account or transaction. The audited financial statements are not intended for use by any party for purposes of decision making concerning any ownership, financing or any other specific transactions relating to the Company. Accordingly, users of the audited statutory financial statements should not rely exclusively on the financial statements and should undertake other procedures before making decisions.

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, 2018.

2.3. Going Concern

As disclosed in Note 40, the rapid development of the Covid-19 virus and its social and economic impact in Serbia and globally resulted in a temporary shut-down of the Hotel in March 2020 and reallocation of employees on temporary paid leaves. Although the Company has applied for the Republic of Serbia economic assistance program to mitigate the damage caused by the COVID-19 epidemic and reopened the hotel in early May 2020, there is uncertainty with regard to the severity of its impact on the Company's future operations. At this stage management is not able to reliably estimate the impact as events are unfolding day-by-day. These conditions indicate the existence of a material uncertainty which may cast significant doubt about the Company's ability to continue as a going concern. Management believes that the Company is in possession of sufficient liquid assets to discharge its liabilities. Therefore, the accompanying financial statements have been prepared on a going concern basis, assuming that the Company will continue to operate for an indefinite period in the foreseeable future.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2019

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 transactions 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.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2019

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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.

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, 2019 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.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2019

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.5. Income Taxes

Current Income Tax

Current income tax is payable at the legally prescribed rate of 15% (2018: 15%) on the taxable income 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, 2019, deferred tax assets and liabilities were provided at the rate of 15% (December 31, 2018: 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 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.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2019

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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 pre-tax discount rate 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.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2019

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.8. Impairment of Assets (Continued)

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, 2019, 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 each 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.

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.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2019

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.11. Financial Instruments (Continued)

Financial Assets (Continued)

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, 2019

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.11. Financial Instruments (Continued)

Financial Assets (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.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2019

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.11. Financial Instruments (Continued)

Financial Liabilities (Continued)

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.

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 estimation uncertainty 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.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2019

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

4. SUMMARY OF KEY ACCOUNTING ESTIMATES (Continued)

4.1. Depreciation and Amortization Charge and Rates Applied (Continued)

The Company assessed that the residual value and useful economic life 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, 2019 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 17,144 thousand (2018: RSD 17,301 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 2019 of RSD 1,693 thousand (2018: RSD 1,702 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.

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.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2019

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

5. SALES REVENUES

	Year Ended December 31,	
	2019	2018
<i>Sales of goods</i>		
Sales of goods in domestic market:		
- sales of beverages	78,299	69,634
- sales of cigarettes	5,734	4,439
	84,033	74,073
<i>Sales of products and services</i>		
- to other related parties, domestic (Note 37)	2,733	2,740
- in domestic market	1,271,711	1,195,848
	1,274,444	1,198,588

Sales of products and services:

	Year Ended December 31,	
	2019	2018
<i>Sales of:</i>		
- rooms	861,205	804,362
- food	306,434	296,160
- telephone and fax	682	1,311
- fitness club	47,636	45,961
- Internet	773	946
Parking and transport services	31,378	25,666
Laundry revenues	15,804	15,023
Dry cleaning and ironing services	2,401	2,054
Other income	8,131	7,105
	1,274,444	1,198,588

6. OTHER OPERATING INCOME

	Year Ended December 31,	
	2019	2018
<i>Rental income from:</i>		
- presentation hall	21,424	25,620
- business premises	6,259	7,025
- equipment	7,923	10,043
- stores	3,871	2,606
- other	7,845	7,304
Other operating income	1,119	1,834
	48,440	54,432

7. COST OF MATERIALS

	Year Ended December 31,	
	2019	2018
Cost of food	99,547	99,873
Small tools and fixtures	12,399	15,244
Cost of materials	33,936	37,467
Cost of materials used in regular maintenance	6,298	5,664
Water charge	6,301	6,283
	158,481	164,531

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2019

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

8. COST OF FUEL AND ENERGY

	Year Ended December 31,	
	2019	2018
Cost of fuel	94	16
Gas bills	24,780	24,355
Electricity bills	46,001	44,894
	70,875	69,265

9. STAFF COSTS

	Year Ended December 31,	
	2019	2018
Gross salaries and benefits	252,017	248,530
Payroll taxes and contributions charged to the employer	39,894	40,400
Considerations paid per service contracts and author fees	9,150	9,890
Considerations paid to seasonal and temporary employees	50,632	54,029
Remunerations to the members of the Company's governing and supervision bodies	11,471	6,506
Other staff costs	18,940	15,375
	382,104	374,730

10. COST OF PRODUCTION SERVICES

	Year Ended December 31,	
	2019	2018
Transportation services	10,763	8,166
Telecommunications and postage	2,259	2,364
Maintenance services	16,975	16,682
Software maintenance	22,522	22,531
Marketing and advertising	28,871	26,994
Public utility services	8,383	8,567
Other production services	14,057	10,273
	103,830	95,577

11. DEPRECIATION AND AMORTIZATION CHARGE

	Year Ended December 31,	
	2019	2018
Depreciation and amortization charge:		
- intangible assets (Note 19)	4,930	5,471
- property, plant and equipment (Note 20)	149,367	155,713
	154,297	161,184

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2019

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

12. LONG-TERM PROVISIONS

	Year Ended December 31,	
	2019	2018
Provisioning charge for:		
- Retirement and other employee benefits (Note 29)	3,655	6,112
- Litigations (Note 29)	31,913	-
	35,568	6,112

13. NON-MATERIAL COSTS

	Year Ended December 31,	
	2019	2018
Security services	9,276	9,736
Tourist agency fees	26,661	21,279
Consultant services	11,123	5,684
Lawyer fees	1,904	13,556
Entertainment	4,196	3,239
Insurance premiums	6,979	6,099
Commissions:		
- gold passport	14,221	11,812
- bank commissions	3,023	2,409
- payment/credit cards	17,360	13,341
- other	217	-
Basic fees as per Management Agreement	41,958	39,731
Incentive fees as per the Management Agreement	53,109	48,225
Other non-material expenses	16,370	20,620
Booking center costs	15,121	11,203
	221,518	206,934

Fees payable per Management Agreement relate to the costs due to Hyatt International EAME. A portion of the cost of consultant services, in the amount of RSD 4,708 thousand, relate to the consultant services provided to the Company by Excelsior a.d., Beograd (Note 37).

14. FINANCE INCOME

	Year Ended December 31,	
	2019	2018
Finance income from other related parties:		
- Interest expenses (Note 37)	7,649	3,361
- Foreign exchange gains (Note 37)	19	9
Interest income (from third parties)	8,893	6,274
Foreign exchange gains and positive currency clause effects (from third parties)	16	5,278
	16,577	14,922

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2019

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

15. FINANCE EXPENSES

	Year Ended December 31, 2019	2018
Finance expenses to other related parties:		
- foreign exchange losses (Note 37)	1,055	8,174
	1,055	8,174
Other finance expenses – withholding taxes on interest paid to a non-residents		-
Interest expenses (to third parties)	32	62
Foreign exchange losses and negative currency clause effects (to third parties)	1,699	448
	2,786	8,684

16. OTHER INCOME

	Year Ended December 31, 2019	2018
Surpluses	9	8
Gains on the sale of equipment	263	51
Other income	1,743	575
	2,015	634

17. OTHER EXPENSES

	Year Ended December 31, 2019	2018
Losses on retirement and disposal of equipment	520	3,384
Write-off of receivables	42	-
Other expenses	4,027	3,457
	4,589	6,841

18. INCOME TAXES

a) Components of Income Taxes

	Year Ended December 31, 2019	2018
Current income tax expenses	(52,002)	(40,388)
Deferred income tax benefits	10,714	4,710
	(41,288)	(35,678)

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2019

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

	2019	2018
Profit before taxes	273,163	234,868
Income tax at the statutory tax rate of 15%	40,974	35,230
Tax effects of expenses not recognized for tax purposes	5,039	7,043
Tax credit utilized	-	(1,885)
Reversal of deferred tax assets per previously recognized tax credits	-	1,885
Temporary differences arising on the values of the property, plant and equipment	178	(6,254)
Temporary differences arising on the provisions for litigations	(4,787)	(341)
Other	(116)	-
	<u>41,288</u>	<u>35,678</u>
Effective tax rate	<u>15%</u>	<u>15%</u>

c) Deferred Tax Assets/Liabilities

Deferred tax liabilities of RSD 84,213 thousand, net as of December 31, 2019 (December 31, 2018: RSD 94,927 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:

	2019	2018
Deferred tax liabilities		
Balance at January 1	(110,874)	(117,128)
<i>Recognized within the income statement (profit or loss)</i>		
- temporary differences between depreciation/amortization for accounting and tax purposes	5,989	6,110
- other	(62)	144
Balance at December 31	<u>(104,947)</u>	<u>(110,874)</u>
Deferred tax assets		
Balance at January 1	15,947	17,491
<i>Recognized within the income statement (profit or loss)</i>		
- expired tax credit carryforward (per capital expenditures)	-	(1,885)
- provisions for litigations	4,787	341
Balance at December 31	<u>20,734</u>	<u>15,947</u>
Deferred tax liabilities, net	<u>(84,213)</u>	<u>(94,927)</u>

d) Income Tax Liability and Receivables for Prepaid Income Tax

The Company's income tax liability amounted to RSD 13,100 thousand as of December 31, 2019 (Note 35). As of December 31, 2018, the Company reported receivables for prepaid income taxes in the amount of RSD 5,562 thousand (Note 24).

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2019

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19. INTANGIBLE ASSETS

	Concessions, Patents, Licenses and Other Rights	Other Intangible Assets	Total
Cost			
Balance at January 1, 2018	31,702	32,952	64,654
Additions	990	852	1,842
Balance at December 31, 2018	<u>32,692</u>	<u>33,804</u>	<u>66,496</u>
Balance at January 1, 2019	32,692	33,804	66,496
Additions	1,614	304	1,918
Disposals	-	(1,045)	(1,045)
Balance at December 31, 2019	<u>34,306</u>	<u>33,063</u>	<u>67,369</u>
Accumulated Amortization			
Balance at January 1, 2018	24,272	22,584	46,856
Charge for the year (Note 11)	3,164	2,307	5,471
Balance at December 31, 2018	<u>27,436</u>	<u>24,891</u>	<u>52,327</u>
Balance at January 1, 2019	27,436	24,891	52,327
Charge for the year (Note 11)	2,873	2,057	4,930
Disposals	-	(1,045)	(1,045)
Balance at December 31, 2019	<u>30,309</u>	<u>25,903</u>	<u>56,212</u>
Net Book Value :			
- at December 31, 2018	<u>5,256</u>	<u>8,913</u>	<u>14,169</u>
- at December 31, 2019	<u>3,997</u>	<u>7,160</u>	<u>11,157</u>

NOTES TO THE FINANCIAL STATEMENTS

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

20. PROPERTY AND EQUIPMENT

	Land	Buildings	Equipment	Investments in Progress, Advances	Total
				Paid	
Cost					
Balance at 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)	-
Other	-	-	(36,851)	-	(36,851)
Balance at 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>
Balance at January 1, 2019	584,640	3,446,542	817,130	11,302	4,859,614
Additions	-	25,763	60,930	9,485	96,178
Transfers	-	-	11,302	(11,302)	-
Disposals	-	-	(6,567)	-	(6,567)
Balance at December 31, 2019	<u>584,640</u>	<u>3,472,305</u>	<u>882,795</u>	<u>9,485</u>	<u>4,949,225</u>
Accumulated Depreciation					
Balance at 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 at December 31, 2018	<u>-</u>	<u>1,994,168</u>	<u>588,310</u>	<u>-</u>	<u>2,582,478</u>
Balance at January 1, 2019	-	1,994,168	588,310	-	2,582,478
Charge for the year (Note 11)	-	86,389	62,978	-	149,367
Disposals	-	-	(6,047)	-	(6,047)
Balance at December 31, 2019	<u>-</u>	<u>2,080,557</u>	<u>645,241</u>	<u>-</u>	<u>2,725,798</u>
Net Book Value :					
- 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>
- at December 31, 2019	<u>584,640</u>	<u>1,391,748</u>	<u>237,554</u>	<u>9,485</u>	<u>2,223,427</u>

As of December 31, 2019, the net book value of the Company's building assigned under mortgage instituted as collateral to securitize the repayment of borrowings amounted to RSD 1,391,748 thousand. In 2017 the Company repaid the loan in full but the mortgage lien has remained registered with the Real Estate Cadaster and Lien Register, i.e., has not been removed until these financial statement issue date.

21. LONG-TERM FINANCIAL INVESTMENTS

	December 31, 2019	December 31, 2018
Long-term financial investments to other related parties (Note 37)	<u>249,915</u>	<u>130,048</u>
Less: Current portion of the long-term investments (Note 25)	<u>(129,386)</u>	<u>-</u>
	<u>120,529</u>	<u>130,048</u>

As of December 31, 2019, the Company's long-term investments made to the other related parties totaling RSD 120,529 thousand, net (EUR 1,024,966) refer to a long-term loan the Company approved to a related party under the loan agreement executed on March 13, 2019, which stipulates that the maximum loan amount shall not exceed EUR 1,025,000 in RSD 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.

NOTES TO THE FINANCIAL STATEMENTS

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

21. LONG-TERM FINANCIAL INVESTMENTS (Continued)

The loan repayment due date is April 1, 2024 and the interest rate applied equals 3.42% per annum. The purpose of the loan is early repayment of the loans due to commercial banks (refinancing). The collateral obtained comprises a mortgage lien assigned over a property registered on the cadastral lot no. 4939 and 10 blank promissory notes. The current portion of the loan in the amount of RSD 129,386 thousand (EUR 1,100,287.85) refers to a loan approved to the 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 XENODOHEION LAMPASA AE, Greece.

22. INVENTORIES

	December 31, 2019	December 31, 2018
Materials, spare parts, tools and fixtures		
- spare parts	12,630	12,576
- miscellaneous materials	6,504	6,242
- food	4,214	3,620
- fuel	933	1,036
- office supplies	2,978	3,133
- small tools and fixtures in use	4,192	3,475
	31,451	30,082
Goods:		
- drinks, beverages	10,201	6,254
- cigarettes	395	125
	10,596	6,379
Advances paid to suppliers	14,975	3,097
	57,022	39,558

23. TRADE RECEIVABLES

	December 31, 2019	December 31, 2018
Domestic trade receivables - other related parties (Note 37)	290	233
Domestic trade receivables	27,473	23,275
	27,763	23,508

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2019

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

24. OTHER RECEIVABLES

	December 31, 2019	December 31, 2018
Interest receivables	2,184	-
Receivables from employees	726	685
Receivables for prepaid income taxes	-	5,562
Receivables for prepaid other taxes and contributions	-	969
Other current receivables	971	117
	3,881	7,333

25. SHORT-TERM FINANCIAL INVESTMENTS

	December 31, 2019	December 31, 2018
Current portion of long-term financial investments (Note 21)	129,386	-
Short-term investments:		
- in foreign currency (EUR 190,000)	-	22,457
- in local currency	80,000	160,000
	209,386	182,457

Short-term RSD deposits totaling RSD 80,000 thousand pertain to the a RSD earmarked deposit placed with a domestic commercial bank for a period from October 31, 2019 to January 31, 2020 at an interest rate of 2% per annum.

26. CASH AND CASH EQUIVALENTS

	December 31, 2019	December 31, 2018
Current accounts in RSD	844,046	179,635
Cash on hand in RSD	2,570	1,247
Foreign currency accounts	40,661	66,054
Cash on hand in foreign currencies	235	591
Other cash funds	-	109
Short-term deposits maturing within 90 days	108	-
	887,620	247,636

27. PREPAYMENTS

	December 31, 2019	December 31, 2018
Prepaid insurance costs	4,247	3,195
Prepaid software maintenance costs	1,288	648
Non-invoiced income receivables and other prepayments	831	1,595
	6,366	5,438

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2019

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

28. EQUITY

The structure of the Company's share capital as of December 31, 2019 and 2018 was as follows:

	December 31, 2019		December 31, 2018	
	RSD '000	Interest %	RSD '000	Interest %
Luella Enterprises Company, Cyprus	2,556,457	94.60	2,556,457	94.60
BMP a.d., Beograd	145,922	5.40	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 2019 and 2018 were as follows:

	Share Capital	Reserves	Retained Earnings	Treasury shares purchased	Accumulated Losses	Total
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>
Balance at January 1, 2019	2,702.379	361,669	948,439	(145,923)	(1,217,950)	2,648,614
Net profit for the year	-	-	231,875	-	-	231,875
Total comprehensive income, net	-	-	231,875	-	-	231,875
Balance at December 31, 2019	<u>2,702.379</u>	<u>361,669</u>	<u>1,180,314</u>	<u>(145,923)</u>	<u>(1,217,950)</u>	<u>2,880,489</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.

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:

	March 14, 2018		
	RSD '000	Share count	% Equity share
Luella Enterprises Company, Cyprus	2,556,457	7,726	94.60
BMP a.d. Beograd	145,922	441	5.40
	<u>2,702,379</u>	<u>8,167</u>	<u>100.00</u>

After the aforesaid date, there have been no changes to the ownership structure, so that it was the same as of December 31, 2019.

NOTES TO THE FINANCIAL STATEMENTS

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29. LONG-TERM PROVISIONS

	December 31, 2019	December 31, 2018
Provisions for:		
- retirement and other employee benefits	9,767	6,112
- Litigations	138,231	106,318
	147,998	112,430

Provisions for litigations totaling RSD 138,231 thousand as of December 31, 2019 (December 31, 2018: RSD 106,318 thousand) for the major part of RSD 135,955 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 a.d., Novi Sad and Construction Company Rad, Belgrade 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, 2019 in accordance with IAS 19, which amounted to RSD 9,767 thousand (December 31, 2018: RSD 6,112 thousand).

30. LONG-TERM LIABILITIES

	December 31, 2019	December 31, 2018
Long-term borrowings, domestic	317,500	-
Less: Current portion of long-term borrowings (Note 31)	(63,500)	-
	254,000	-
Long-term finance lease liabilities	474	1,437
Less: Current portion of finance lease liabilities (Note 31)	(474)	(950)
	-	487
	254,000	487
Other long-term liabilities	3,380	1,087

The Company's long-term borrowings totaling RSD 317,500 thousand as of December 31, 2019 relate to the long term-loan approved by Eurobank ad, Beograd in the amount of EUR 2,700,000 (with a currency clause index) on December 24, 2019 for the purchase of all shares of Excelsior ad, Beograd held by LAMPASA A.E. the loan was obtained at an interest rate equal to 3M EURIBOR plus 3.55% per annum, with a repayment period of 60 months.

As collateral securitizing timely loan repayment, the Company provided 10 blank promissory notes, an out-of-court executable first mortgage lien instituted over a commercial building owned by Excelsior ad, Beograd and a setup of a guarantee deposit 6 months after the first loan tranche draw-down (which will accrue interest at the rate equal to 3M BELIBOR in accordance with the contract that will be executed between the parties).

31. SHORT-TERM FINANCIAL LIABILITIES

	December 31, 2019	December 31, 2018
Current portion of long-term borrowings (Note 30)	63,500	-
Current portion of finance lease liabilities (Note 30)	474	950
	63,974	950

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2019

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32. ADVANCES, DEPOSITS AND RETAINERS RECEIVED AND TRADE PAYABLES

	December 31, 2019	December 31, 2018
Advances received	20,289	3,791
Trade payables		
Trade payables – other related parties, domestic (Note 37)	-	237
Trade payables – other related parties, foreign and remunerations to the management (Note 37)	7,683	6,934
Domestic trade payables	13,419	7,831
Foreign trade payables	3,594	184
	24,696	15,186

33. OTHER CURRENT LIABILITIES

	December 31, 2019	December 31, 2018
Other liabilities from specific operations	-	90
Liabilities to employees	1,581	1,743
	1,581	1,833

34. VALUE ADDED TAX PAYABLE

Value added tax payable amounting to RSD 11,484 thousand as of December 31, 2019 (December 31, 2018: RSD 8,384 thousand) entirely relate to the value added tax liabilities arising from the difference between the output and input VAT amounts.

35. OTHER TAXES, CONTRIBUTIONS AND DUTIES PAYABLE

	December 31, 2019	December 31, 2018
Income tax liabilities	13,100	-
Other taxes, contributions and duties payable	1,175	455
	14,275	455

NOTES TO THE FINANCIAL STATEMENTS

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36. ACCRUALS

	<u>December 31, 2019</u>	<u>December 31, 2018</u>
Accrued expenses for bonuses	10,688	4,257
Accrued electricity costs	3,307	3,479
Accrued gas costs	3,451	3,984
Accrued Gold Passport expenses	1,247	3,275
Accrued tourist agency expenses	1,598	984
Accrued HR activity expenses	3,376	520
Accrued other expenses	8,792	7,935
Deferred Fitness Club income	5,344	10,671
Deferred other income	2,971	4,091
	<u>40,774</u>	<u>39,196</u>

37. 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, 2019 and 2018 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 loan receivables and trade payables (management fees payable to Hyatt International EAME).

a) Balance Sheet

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

	<u>December 31, 2019</u>	<u>December 31, 2018</u>
Long-term financial investments (Note 21)		
- Excelsior a.d., Beograd	120,529	130,048
Trade receivables (Note 23)		
- Excelsior a.d., Beograd	290	233
Short-term financial investments (Note 25)		
- Excelsior a.d., Beograd	129,386	-
Total receivables	<u>250,205</u>	<u>130,281</u>
Trade payables (Note 32)		
- Hyatt International EAME	(7,683)	(6,934)
- Excelsior a.d., Beograd	-	(237)
	<u>(7,683)</u>	<u>(7,171)</u>
Total liabilities	<u>(7,683)</u>	<u>(7,171)</u>
Receivables, net	<u>242,522</u>	<u>123,110</u>

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2019

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

37. RELATED PARTY DISCLOSURES (Continued)

b) Income Statement

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

	2019	2018
Sales of products and services (Note 5):		
- Excelsior a.d., Beograd	2,733	2,740
Finance income (Note 14)		
- Excelsior a.d., Beograd	7,668	3,361
- Markelia Enterprises Company Limited	-	9
Total income	10,401	6,110
Non-material costs (Note 13)		
- Hyatt International EAME	(95,067)	(87,956)
- Excelsior a.d., Beograd	(4,708)	-
Finance expenses (Note 15)		
- Markelia Enterprises Company Limited	-	(8,174)
- Excelsior a.d., Beograd	(1,055)	-
Total expenses	(100,830)	(96,130)
Expenses, net	(90,429)	(90,020)

The Company calculated and paid remunerations to the members of the Board of Directors in the total amount of RSD 2,567 thousand, gross for the year ended December 31, 2019.

38. 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.

NOTES TO THE FINANCIAL STATEMENTS

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38. 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, 2019	December 31, 2018
Debt a)	321,354	2,524
Cash and cash equivalents	887,620	247,636
Net debt	-	-
Equity b)	2,880,489	2,648,614
Debt to equity ratio	-	-

a) Debt is related to long-term and short-term financial liabilities.

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, 2019	December 31, 2018
Financial assets		
Long-term financial investments	120,529	130,048
Short-term financial investments	209,386	182,457
Trade receivables	27,763	23,508
Receivables from specific operations	2	57
Receivables for non-invoiced income	831	1,595
Cash and cash equivalents	887,620	247,636
	<u>1,246,131</u>	<u>585,301</u>
Financial liabilities		
Trade payables	24,696	15,186
Long-term borrowings, domestic	254,000	-
Finance lease liabilities	-	487
Other long-term liabilities	3,380	1,087
Current portion of long-term borrowings and finance lease liabilities	63,974	950
Accrued expenses and other liabilities	21,771	20,177
	<u>367,821</u>	<u>37,887</u>

Basic financial instruments held by the Company comprise long-term and short-term financial investments, cash and cash equivalents, trade receivables, interest receivables and borrowings, lease liabilities, 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.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2019

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

38. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

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.

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, 2019	December 31, 2018	December 31, 2019	December 31, 2018
EUR	284,172	212,671	321,568	1,621
USD	6,639	6,479	7,683	6,934
	290,811	219,150	329,251	8,555

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.

NOTES TO THE FINANCIAL STATEMENTS

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

38. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

Market Risk (Continued)

Foreign Currency Risk (Continued)

	December 31, 2019	RSD '000 December 31, 2018
EUR	(3,740)	21,105
USD	(104)	(46)
Impact on the current year's P&L	(3,844)	21,059

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.

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, 2019	December 31, 2018
Financial assets		
Non-interest bearing		
Short-term financial investments	-	22,457
Trade receivables	27,763	23,508
Receivables from specific operations	2	57
Receivables for non-invoiced income	831	1,595
Cash and cash equivalents	887,620	247,636
	916,216	295,253
Fixed interest rates		
Short-term financial investments	209,386	160,000
Long-term financial investments	120,529	130,048
	329,915	290,048
	1,246,131	585,301
Financial liabilities		
Non-interest bearing		
Trade payables	24,696	15,186
Accrued expenses and other liabilities	21,769	20,177
Other long-term liabilities	3,380	1,087
	49,845	36,450
Fixed interest rates		
Long-term borrowings, domestic	254,000	-
Finance lease liabilities	-	487
Current portion of long-term borrowings and finance lease liabilities	63,974	950
	317,974	1,437
	367,819	37,887

NOTES TO THE FINANCIAL STATEMENTS

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

38. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

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 Company's most significant customers are presented below:

	December 31, 2019	December 31, 2018
City Records d.o.o., Beograd	4,000	1,849
OSCE	2,171	842
Lufthansa City Line GmbH, Köln, Germany	1,997	1,511
Mihajlo Pupin Institute, Belgrade	1,689	-
Prima Market	1,006	-
Adria Media Magazine d.o.o.	704	208
Energy Community	689	-
NALED	593	-
Miross TA, Belgrade	372	3,819
Euromed doo, Beograd	-	2,032
Paris Saint Germain Football Club	-	1,724
Other customers	14,542	11,523
	<u>27,763</u>	<u>23,508</u>
<i>Less: Allowance for impairment of trade receivables</i>	-	-
	<u>27,763</u>	<u>23,508</u>

Breakdown of the Company's trade receivables as of December 31, 2019 is presented in the following table:

	Gross Exposure	Impairment Allowance	Net Exposure
Trade receivables, not matured	14,358	-	14,358
Trade receivables, matured and provided for	-	-	-
Trade receivables, matured but not provided for	13,405	-	13,405
	<u>27,763</u>	<u>-</u>	<u>27,763</u>

Breakdown of the Company's 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
	<u>23,508</u>	<u>-</u>	<u>23,508</u>

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2019

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

38. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

Credit Risk (Continued)

Managing Trade Receivables (Continued)

Trade receivables, not matured

Trade receivables, not matured totaling RSD 14,358 thousand as of December 31, 2019 (December 31, 2018: RSD 9,032 thousand) mainly relate to receivables from the sales of services in the last week of 2019. These receivables mainly mature within 7 days from the invoice date, depending on the contractual terms of payment. The average days sales outstanding in 2019 counted 7 days (2018: 12 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 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 2019 and 2018 no additional allowances were charged.

Trade Receivables, matured but not provided for

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

	December 31, 2019	December 31, 2018
Less than 30 days past due	9,956	12,133
From 31 to 90 days past due	3,363	2,290
From 91 to 180 days past due	86	53
From 181 to 365 days past due	-	-
Over a year past due	-	-
	13,405	14,476

Managing Trade Payables

The Company's trade payables are stated as amounting to RSD 24,696 thousand as of December 31, 2019 (December 31, 2018: RSD 15,186 thousand). Suppliers do not charge penalty (default) interest on outstanding liabilities, whereas the Company settled its dues to suppliers within the agreed terms, in accordance with the financial risk management policies in place. The average days payable outstanding in 2019 counted 15 days (2018: 20 days).

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.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2019

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

38. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

Liquidity Risk (Continued)

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, 2019					Total
	Within 1 Month	From 1 to 3 Months	3 Months to 1 Year	From 1 to 5 Years	Over 5 years	
Non-interest bearing	916,216	-	-	-	-	916,216
Fixed interest rate						
- principal	-	80,000	129,386	120,529	-	329,915
- interest	-	394	1,119	17,759	-	19,272
	<u>916,216</u>	<u>80,394</u>	<u>130,505</u>	<u>138,288</u>	<u>-</u>	<u>1,265,403</u>
	December 31, 2018					Total
	Within 1 Month	From 1 to 3 Months	3 Months to 1 Year	From 1 to 5 Years	Over 5 years	
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>

The following tables provide the details of outstanding contractual liabilities of the Company. The amounts presented are based on the undiscounted cash flows arising from financial liabilities based on the earliest date upon which the Company will be due to settle such payables.

Maturities of Financial Liabilities

	December 31, 2019					Total
	Within 1 Month	From 1 to 3 Months	3 Months to 1 Year	From 1 to 5 Years	Over 5 years	
Non-interest bearing	24,696	21,769	-	3,380	-	49,845
Fixed interest rate						
- principal	-	47,625	16,349	254,000	-	317,974
- interest	-	2,558	6,883	17,223	-	26,664
	<u>24,696</u>	<u>71,952</u>	<u>23,232</u>	<u>274,603</u>	<u>-</u>	<u>394,483</u>
	December 31, 2018					Total
	Within 1 Month	From 1 to 3 Months	3 Months to 1 Year	From 1 to 5 Years	Over 5 years	
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>-</u>	<u>37,924</u>

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2019

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

38. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

Fair Value of Financial Instruments

As of December 31, 2019 and December 31, 2018, the carrying values of the Company's financial assets and liabilities did not depart from the fair values thereof.

Assumptions for the Assessment of Financial Instruments' Current Fair Value

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 method. In using the discounted cash flows 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.

39. LITIGATION

Provisions for Litigations

As of December 31, 2019 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 294,057 thousand as of December 31, 2019, excluding any penalty interest. Based on the opinion of the attorneys and management's estimate, a provision of RSD 138,231 thousand.

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.

Administrative proceedings for the compensation to the former owners of the confiscated land on which the Hyatt Hotel 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 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.

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. Accordingly, the Company made a provision for a loss contingent on this lawsuit of RSD 138,231 thousand (the amount of the consideration at the market value as determined by the Tax Administration for the total land area). It was established that one of the former land owners passed away in 2011, so the proceedings were discontinued for this litigant. Given that the litigation has not yet been resolved and that the Company made a provision based on the determined market value of the land at issue, the management believes that the provision made is sufficient and that the Company will have no other significant contingent liabilities in this respect.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2019

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

39. LITIGATION (Continued)

Provisions for Litigations (Continued)

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 2019.

40. EVENTS AFTER THE REPORTING PERIOD

COVID-19 pandemic is a significant event after the reporting period, which caused significant difficulties and posed a threat to numerous companies and their business activities.

The rapid development of the Covid-19 virus and its social and economic impact in the Republic of Serbia and globally may result in assumptions and estimates requiring revisions which may lead to material adjustments to the carrying value of assets and liabilities within the next financial year. At this stage management is not able to reliably estimate the impact as events are unfolding day-by-day. The longer term impact may also affect trading volumes, cash flows and profitability. Although the pandemic caused a plummet in demand of accommodation and food and beverage services, the Company has undertaken measures at the required level to ensure business continuity. In 2020 the Company has been in possession of sufficient liquid assets and will need not draw down additional line of credit funds. The Company expects no difficulties in collection of receivables since it has been operating with known customers, based on whose credit analyses performed, deferred payment was approved. At the issue date of these financial statements, the Company continues to meet its obligations as they fall due and therefore the Company continues to apply the going concern basis of preparation.

41. TAXATION RISKS

The Republic of Serbia tax legislation is subject to varying interpretations and changes occur frequently. Interpretation of the tax legislation by the tax authorities as applied to the transactions and activity of the Company may not coincide with that of the management. As a result, transactions may be challenged by the tax authorities and the Company may be assessed additional taxes, penalties and interest, which can be significant. The statute of limitations on tax liabilities is five years. This virtually means that the tax authorities could determine payment of outstanding liabilities in the period of five years from the liability origination

42. 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:

	RSD	
	December 31, 2019	December 31, 2018
EUR	117.5928	118,1946
USD	104.9186	103,3893

APPENDICES

INCOME STATEMENT
Year Ended December 31, 2019
(Thousands of EUR)

	<u>2019</u>	<u>2018</u>
Operating income		
Sales of goods in domestic market	713	626
Sales of products and services to other related parties in domestic market	23	23
Sales of products and services in domestic market	10,790	10,111
Other operating income	411	460
	<u>11,937</u>	<u>11,220</u>
Operating expenses		
Cost of commercial goods sold	(155)	(128)
Cost of materials	(1,345)	(1,391)
Cost of fuel and energy	(601)	(586)
Staff costs	(3,242)	(3,168)
Cost of production services	(881)	(808)
Depreciation/amortization charge	(1,309)	(1,363)
Long-term provisions	(302)	(52)
Non-material costs	(1,880)	(1,750)
	<u>(9,715)</u>	<u>(9,246)</u>
Profit from operations	<u>2,222</u>	<u>1,974</u>
Finance income		
Finance income from other related parties	65	28
Interest income (from third parties)	75	53
Foreign exchange gains and positive currency clause effects (third parties)	-	45
	<u>140</u>	<u>126</u>
Finance expenses		
Finance expenses to other related parties	(9)	(69)
Interest expenses (to third parties)	-	(1)
Foreign exchange losses and negative currency clause effects (to third parties)	(14)	(4)
	<u>(23)</u>	<u>(74)</u>
Profit from financing activities	<u>117</u>	<u>52</u>
Other income	17	5
Other expenses	(39)	(58)
Profit from continuing operations before taxes	<u>2,317</u>	<u>1,973</u>
Net profit from discontinued operations, effects of changes in the accounting policies and prior years' error adjustment	-	11
Current income tax expense	(441)	(341)
Deferred tax benefits	91	40
NET PROFIT FOR THE YEAR	<u><u>1,967</u></u>	<u><u>1,683</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, 2019 and 2018 was performed using the following average exchange rates:

- 2019: 117.8593
- 2018: 118.2752

BALANCE SHEET
As of December 31, 2019
(Thousands of EUR)

	December 31, 2019	December 31, 2018
ASSETS		
Non-current assets	20,028	20,485
Intangible assets	95	119
Concessions, patents, licenses, trademarks, software and other rights	34	44
Other intangible assets	61	75
Property, plant and equipment	18,908	19,266
Land	4,972	4,946
Buildings	11,835	12,288
Plant and equipment	2,020	1,936
Other property, plant and equipment	-	11
Advances paid for property, plant and equipment	81	85
Long-term financial investments		
Long-term financial investments to parent entities and other subsidiaries	1,025	1,100
Current assets	10,136	4,281
Inventories	484	335
Materials, spare parts, small tools and fixtures	267	255
Goods	90	54
Advances paid for inventories and services	127	26
Trade receivables	236	199
Domestic – other related parties	2	2
Domestic	234	197
Other receivables	33	62
Short-term financial investments		
Other short-term financial investments	1,781	1,544
Cash and cash equivalents	7,548	2,095
Prepayments	54	46
Total assets	30,164	24,766

(Continued)

Appendix 2 (continued)

BALANCE SHEET (Continued)
As of December 31, 2019
(Thousands of EUR)

	December 31, 2019	December 31, 2018
EQUITY AND LIABILITIES		
Equity	<u>24,494</u>	<u>22,406</u>
Share capital	30,860	30,860
Treasury shares purchased	(1,235)	(1,235)
Reserves	4,476	4,476
Current year's retained earnings	1,967	1,683
Prior years' retained earnings	9,341	7,658
Prior years' accumulated losses	(10,710)	(10,710)
Translation reserves	<u>(10,205)</u>	<u>(10,326)</u>
Non-current provisions and liabilities	<u>3,448</u>	<u>965</u>
Provisions for retirement and other employee benefits	83	52
Provisions for litigations	1,176	900
Long-term borrowings, foreign	2,160	-
Finance lease liabilities	-	4
Other long-term liabilities	29	9
Deferred tax liabilities	<u>716</u>	<u>803</u>
Current liabilities		
Short-term financial liabilities	<u>544</u>	<u>8</u>
Other short-term financial liabilities	<u>544</u>	<u>8</u>
Advances, deposits and retainers received	173	32
Trade payables	<u>210</u>	<u>129</u>
Domestic – other related parties	-	2
Foreign – other related parties	65	59
Domestic	114	66
Foreign	<u>31</u>	<u>2</u>
Other current liabilities	13	16
Value added tax payable	98	71
Income tax liabilities	111	-
Other taxes, contributions and duties payable	10	4
Accruals	<u>347</u>	<u>332</u>
Total equity and liabilities	<u><u>30,164</u></u>	<u><u>24,766</u></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, 2019 and 2018 was performed using the following rates:

- Balance Sheet items at December 31, 2019 except for the share capital, revaluation reserves and net profit were translated using the closing rate: 117.5928
- 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
- Share capital at December 31, 2019 and December 2018 was translated using the historical exchange rate: 87.569
- Treasury shares purchased at December 31, 2019 was translated using the exchange rate at the date of transaction: 118.20
- Revaluation reserves at December 31, 2019 and December 31, 2018 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, 2019 and December 31, 2018 were translated using the average exchange rate for 2019 and 2018: 117.8593 and 118.2752.