EXCELSIOR A.D., BEOGRAD

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

CONTENT

Translation of the Auditors' Report issued in the Serbian language

INDEPENDENT AUDITORS' REPORT

To the Shareholders and Management of Excelsior a.d., Beograd

Opinion

We have audited the financial statements of Excelsior 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 the Company 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 opinion.

Material Uncertainty Related to Going Concern

We draw attention to Note 2.3 to the financial statements, disclosing that financial statements have been prepared assuming that the Company will continue as a going concern. In addition, as disclosed in Note 34, the rapid development of the Covid-19 virus and its social and economic impact in Serbia and globally resulted in negative impact on the financial performance of the Company. 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. The financial statements does not include any adjustments that might result from this uncertainty. Our opinion is not qualified in respect of this matter.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matter described in the *Material Uncertainty Related to Going Concern* section, we have determined the matter described below to be the key audit matter to be communicated in our report.

(Continued)

Translation of the Auditors' Report issued in the Serbian language

INDEPENDENT AUDITORS' REPORT

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

Key Audit Matters (Continued)

Key audit matter	*Responsive audit procedure*
Land and Building impairment assessment	
The information on the accounting policies applied to the valuation of Land and Building is provided in Notes 3.7, 3.8, and 4.4 to the financial statements. For additional information, please refer to Note 17. *The Company reported property, plant and equipment as totaling RSD 640,175 thousand for the year ended December 31, 2019.* *Management has concluded that there is no indication that Land and Building is impaired. This conclusion was based on an analysis of indication from external and internal sources of information, including but not limited to market interest rate, market capitalization, sensitivity analysis, and comparison of operational results (net cash flow, operating profit, etc) with originally budgeted, which required significant management judgment.*	*Our procedures in relation to management's impairment assessment included:* - *Assessing the reasonableness of identified internal and externals sources of information;* - *Challenging the reasonableness of key assumptions based on our knowledge of the business, hospitality industry and available information from the market;* - *Reconciling input data to supporting evidence, such as approved budgets and projection used by the management, considering the reasonableness of these budgets and projections;* - *Comparing budget for the current year with results;* - *Checking, on the sample basis, the accuracy and relevance of the input data used by the management,* - *Engage our in-house expert to assist us in evaluating whether the sources of the data, assumptions and methods used by the management for the sensitivity analysis are adequate and reliable, and* - *Considering the potential impact of reasonably possible downside changes in these key assumptions.*

Other Matter

The Company's financial statements for FY 2018 were audited by another auditor, whose report dated April 25, 2019 expressed an qualified opinion with respect to independent confirmation of accounts receivables.

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.

Report on Other Legal and Regulatory Requirements

Management of the Company is responsible for the preparation of the Company's annual business report in accordance with the requirements of the Law on Accounting of the Republic of Serbia, which is not an integral part of the accompanying financial statements. In accordance with the Law on Audit of the Republic of Serbia, our responsibility is to express an opinion on the compliance of the Company's annual business report for the year 2019 with its financial statements for the same year. In our opinion, the financial information disclosed in the annual business report for 2019 is consistent with the audited financial statements of the Company for the year ended December 31, 2019.

(Continued)

Translation of the Auditors' Report issued in the Serbian language

INDEPENDENT AUDITORS' REPORT

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

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.

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.

(Continued)

Translation of the Auditors' Report issued in the Serbian language

INDEPENDENT AUDITORS' REPORT

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

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

- 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.

We also provide those charged with governance with a statement that we have complied with the relevant independence requirements, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, the related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Mr. Miroslav Tončić, Certified Auditor.

Miroslav Tončić
Certified Auditor

Deloitte d.o.o., Beograd
Terazije 8, 11000 Belgrade
July 9, 2020

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

	Note	2019	2018
Operating income			
Sales of products and services to other related parties in domestic market	5	4,459	-
Sales of products and services in domestic market	5	141,249	149,845
Other operating income	6	8,139	3,442
		153,847	153,287
Operating expenses			
Revenue from performance and commodity activation		86	114
Cost of materials	7	(16,778)	(17,155)
Cost of fuel and energy	8	(7,991)	(7,657)
Staff costs	9	(55,332)	(48,790)
Cost of production services	10	(16,300)	(16,617)
Depreciation/amortization charge	17	(27,205)	(25,984)
Long-term provisions		-	(670)
Non-material costs	12	(31,480)	(32,180)
		(155,000)	(148,939)
(Loss)/Profit from operations		(1,153)	4,348
Finance income			
Finance income from other related parties	13	46	26
Interest income (from third parties)	13	239	363
Foreign exchange gains and positive currency clause effects (third parties)	13	1,007	614
	13	1,292	1,003
Finance expenses			
Finance expenses to other related parties	13	(7,654)	(3,362)
Other finance expenses		-	-
Interest expenses (to third parties)	13	(1,412)	(8,541)
Foreign exchange losses and negative currency clause effects (to third parties)	13	(358)	(418)
		(9,424)	(12,321)
Loss from financing activities		(8,132)	(11,138)
Other income	14	6	2,049
Other expenses	14	(494)	(2,445)
Loss from continuing operations before taxes		(9,773)	(7,366)
Net profit from discontinued operations, effects of changes in the accounting policies and prior years' error adjustment		(306)	(466)
Current income tax expense	16	(631)	(862)
Deferred tax benefits	16	2,026	1,848
NET LOSS FOR THE YEAR	15	(8,684)	(6,846)

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 loss for the year	(8,684)	(6,846)
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	(8,684)	(6,846)
Taxes payable on other comprehensive income	-	-
Other positive/(negative) comprehensive income, net	-	-
Total negative comprehensive income for the year, net	(8,684)	(6,846)

Notes on the following pages form
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BALANCE SHEET
As of December 31, 2019
(Thousands of RSD)

	Note	December 31, 2019	December 31, 2018
ASSETS			
Non-current assets		**645,174**	**681,743**
Intangible assets			
Concessions, patents, licenses, trademarks, software and other rights	17	4,999	5,025
Property, plant and equipment		640,175	657,334
Land	17	147,937	147,937
Buildings	17	474,447	484,449
Plant and equipment	17	17,618	16,966
Other property, plant and equipment	17	111	111
Advances paid for property, plant and equipment	17	62	7,871
Long-term financial investments			
Other long-term investments	18	-	19,384
Current assets		**49,454**	**22,286**
Inventories	19	443	2,191
Materials, spare parts, small tools and fixtures	19	327	2,029
Advances paid for inventories and services	19	116	162
Trade receivables	20	5,456	3,021
Domestic – other related parties	20	706	-
Foreign – other related parties		230	230
Domestic	20	2,408	1,396
Foreign	20	2,112	1,395
Other receivables	21	8,871	5,765
Cash and cash equivalents	22	33,964	10,797
Prepayments VAT	23	155	-
Prepayments active accruals		565	512
Total assets		**694,628**	**704,029**

(Continued)

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

	Note	December 31, 2019	December 31, 2018
EQUITY AND LIABILITIES			
Equity		**378,055**	**386,739**
Share capital	24	63,859	77,311
Treasury shares purchased		-	(13,452)
Reserves	24	411,955	411,955
Current year's retained earnings			
Prior years' accumulated losses	24	(89,075)	(82,229)
Current year loss	24	(8,684)	(6,846
Non-current provisions and liabilities		**121,728**	**205,496**
Provisions for retirement and other employee benefits	25	670	670
Provisions for litigations	25	525	525
Other long-term liabilities-related	26	120,533	129,908
Other long-term liabilities - foreign	26	-	74,393
Deferred tax liabilities	16	53,562	55,590
Current liabilities		**141,283**	**56,204**
Short-term financial liabilities			
Other short-term financial liabilities-related	27	129,386	46,096
Advances, deposits and retainers received		2,093	169
Trade payables	28	6,255	6,059
Domestic – other related parties		290	234
Domestic		3,296	2,576
Foreign		1,100	1,593
Other		1,569	1,656
Other current liabilities	29	2,196	-
Value added tax payable	23	722	3,018
Other taxes, contributions and duties payable	16	631	862
Total equity and liabilities		**694,628**	**704,029**

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)

	Equity Components					
	Issued (Share) Capital	**Reserves**	**Accumulated Losses**	**Retained Earnings**	**Treasury shares purchased**	**Total Equity**
Opening balance at January 1, 2018						
a) debit balance	-	-	-	-	-	
b) credit balance	77,311	411,955	-	32,122	-	521,388
Movements in the previous year – 2018						
a) debit turnover	-	-	89,075	32,122	13,452	
b) credit turnover	-	-	-	-	-	(127,803)
Closing balance at December 31, 2018						
a) debit balance			89,075	-	13,452	
b) credit balance	77,311	411,955	-	-	-	386,739
Movements in the current year – 2019						
a) debit turnover	13,452	-	8,684	-	-	
b) credit turnover	-	-	-	-	13,452	(8,684)
Closing balance at December 31, 2019						
a) debit balance			97,759	-	-	
b) credit balance	63,859	411,955		-	-	378,055

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)

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash inflows from operating activities		
Cash receipts from customers	177,332	164,881
Interest received from operating activities	239	363
Other cash receipts from operating activities	4,206	639
	181,777	**165,883**
Cash outflows from operating activities		
Cash paid to suppliers	(86,475)	(95,530)
Cash paid to and on behalf of employees	(54,006)	(48,790)
Interest paid	(5,596)	(11,903)
Income taxes paid	(886)	-
Other public duties paid	(12,502)	-
	(159,465)	**(156,223)**
Net cash generated by operating activities	**22,312**	**9,660**
CASH FLOWS FROM INVESTING ACTIVITIES		
Cash inflows from investing activities		
Other financial investments, net inflows	19,384	-
	19,384	**-**
Cash outflows from investing activities		
Purchases of intangible assets, property, plant and equipment	(17,457)	(6,856)
	(17,457)	**(6,856)**
Net cash generated/(used) in investing activities	**1,927**	**(6,856)**
CASH FLOWS FROM FINANCING ACTIVITIES		
Cash inflows from financing activities	-	
Long-term borrowings (net inflows)	21,771	129,908
	21,771	129,908
Cash outflows from financing activities		
Purchase of own treasury shares and equity interests	-	(127,803)
Short-term borrowings, net outflows	(22,415)	(16,892)
	(22,415)	**(144,695)**
Net cash used in financing activities	**(644)**	**(14,787)**
Net (decrease)/increase in cash and cash equivalents	**23,595**	**(11,983)**
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	10,797	22,460
Foreign exchange gains on translation of cash	170	613
Foreign exchange losses on translation of cash	(598)	(293)
CASH AND CASH EQUIVALENTS, END OF YEAR	**33,964**	**10,797**

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. INCORPORATION AND ACTIVITY

The Shareholding Company for Hotel, Hospitality and Tourist Services *Excelsior a.d., Beograd*, (hereinafter: the "Company") was founded on November 2, 1993.

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

On April 24, 2017, the Company executed the Management Agreement with Orbis S.A., Warsaw, Poland, a licensed agent of Accor Group, France in Serbia. Under the said Agreement, Orbis S.A., Orbis S.A., Warsaw, Poland undertook to manage all the hotel activities under the protected Mercure brand and in conformity with all the brand standards for a period of ten years, commencing on September 1, 2017, when the hotel was reopened under the new name of the Mercure Belgrade Excelsior Hotel.

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

Tax ID No. is 100279522, and Company number is 06934218.

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

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

2.1. Basis of Preparation and Presentation of Financial Statements

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

The Ministry's Decision dated March 13, 2014, published in the Official Gazette of the Republic of Serbia no. 35 on March 27, 2014 ("Decision on Adoption of the Translations") was enacted to adopt the translation of the basic texts of the IFRS and IAS, the Conceptual Framework for Financial Reporting (the "Conceptual Framework") issued by IASB, and the related interpretations issued by IFRIC. The aforesaid translations, adopted by the Decision on Adoption of the Translations, do not include the bases for closure, illustrating examples, guidelines and comments, contrary opinions, elaborated examples or other additional explanatory materials that can be adopted as associated with the standards and interpretations unless it is expressly stated that such materials form an integral part of the standards and interpretations. Based on this Decision on Adoption of the Translations, the Conceptual Framework, IAS, IFRS, IFRIC and related interpretations that have been translated shall be applied to the financial statements prepared as of December 31, 2014.

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 prepared these financial statements in accordance with the requirements of the Rulebook on Chart of Accounts and content of accounts in the chart of accounts for companies, cooperatives and entrepreneurs (Official Gazette of the Republic of Serbia No. 95/2014) and the format prescribed by the Rulebook on Content and Form of Financial Statements for Companies, Cooperatives and Entrepreneurs ("Official Gazette of RS", No. 95/2014 and 144/2014), which deviates from the format defined in IAS 1 (revised) - "Presentation of financial statements" and IAS 7 - " Cash Flows Statement " .

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

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

- Decision of the Republic of Serbia Ministry of Finance no. 401-00-896/2014-16 dated March 13, 2014 (Official Gazette of the Republic of Serbia no. 35/2014) stipulates that official standards comprise the official translations of the International Accounting Standards ("IAS") and International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB") as well as interpretations of the standards issued by the International Financial Reporting Interpretations Committee ("IFRIC") until July 31, 2013. after July 31, 2013 IASB and IFRIC issued a significant number of amendments, annual improvements and supplements to the existing or revised standards and interpretations and pronounced new IFRS and replaced some of the existing IAS, which have not been translated and official adopted in the Republic of Serbia.

- Certain bylaws effective in the current period require recognition, measurement and classification of assets, liabilities and equity, as well as revenues and expenses, that depart from the requirements of the translated and adopted IFRS and IAS.

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.

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.

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.

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.

The financial statements have been prepared under the historical cost principle, unless otherwise stated in the accounting policies set out below.

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 for issue by the Company's management on July 6, 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. BASIS OF PREPARATION AND PRESENTATION OF THE FINANCIAL STATEMENTS AND ACCOUNTING CONVENTION (Continued)

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 at December 31, 2019, the Company's current liabilities, which for the major portion of RSD 129,676 thousand relate to liabilities due to its related parties, exceeded its current assets by RSD 91,829 thousand, whereas the Company incurred a net loss of RSD 8,684 thousand for the current year. The Company's management expects that the Company will continue to generate stable revenues and reduce costs in the forthcoming period, or that the increase in costs will be less than the increase in revenues. Furthermore, the Company expects that the Management Agreement executed with Orbis S.A., Warsaw, Poland, which will manage all the hotel activities under the protected brand Mercure, will contribute to the business stabilization and profitable operations. Accordingly, these financial statements have been prepared on a going concern basis, assuming that the Company will continue to operate in the foreseeable future.

2.4. Standards and Interpretations in Issue, Taking Effect on January 1, 2020, under the Decision on Adoption of the Translations

- ***IFRS 9 "Financial Instruments"***

IFRS 9 issued in November 2009 introduced new requirements for the classification and measurement of financial assets. IFRS 9 was subsequently amended in October 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition, and in November 2013 to include the new requirements for general hedge accounting. Another revised version of IFRS 9 was issued in July 2014 mainly to include a) impairment requirements for financial assets and b) limited amendments to the classification and measurement requirements by introducing a 'fair value through other comprehensive income' (FVTOCI) measurement category for certain simple debt instruments.

In accordance with IFRS 9, effective in the Republic of Serbia as of January 1, 2020 under Decision of the Ministry of Finance no. 401-00-4980/2019-16 dated November 21, 2019, changes in the accounting policies due to the adoption of IFRS 9 shall be applied retrospectively, with a permitted exception that comparative figures for prior periods need not be adjusted and restated in respect of changes relating to the classification and measurement, as well as impairment of financial assets.

Effects of reconciliation of the carrying values of the financial assets and liabilities as of the standard's first-time adoption date will be recognized in equity within retained earnings as the 2020 opening balance adjustment.

The key requirements of IFRS 9 are: All recognized financial assets that are within the scope of IAS 39 "Financial Instruments: Recognition and Measurement" are required to be subsequently measured at amortized cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortized cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are generally measured at fair value through other comprehensive income.

All other debt investments are measured at their fair value at the end of subsequent accounting periods. In addition, under IFRS 9, entities may make an irrevocable election upon initial recognition to measure an equity investment (that is not held for trading) at fair value through other comprehensive income, with only dividend income generally recognized in profit or loss.

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

2.4. Standards and Interpretations in Issue, Taking Effect on January 1, 2020, under the Decision on Adoption of the Translations (Continued)

- ***IFRS 9 "Financial Instruments" (Continued)***

With regard to the measurement of financial liabilities designated as at fair value through profit or loss, IFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Under IAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss is presented in profit or loss.

In relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under IAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a default event to have occurred before credit losses are recognized.

Additionally, the Company will adopt consequential amendments to IFRS 7 "Financial Instruments: Disclosures", which will be applied to disclosures for 2020.

(i) Classification and Measurement of the Financial Assets and Liabilities

Classification and measurement of financial assets depend on the results of the so-called SPPI test (i.e., checkup whether the contractual cash flows of an asset are solely repayments of principal and payments of interest on the principal outstanding) and the business model test. The Company's business model reflects the manner in which the Company manages groups of its financial assets in order to achieve a certain business goal. This analysis entails judgments made based on all the relevant evidence, including that on the method of measurement and evaluation of the financial assets' performance, the manner of managing the financial assets and the manner of remunerating the persons managing those financial assets. The Company monitors financial assets measured at amortized cost or those measured at fair value through the other comprehensive income, which are derecognized before their maturity in order to understand the reasons for their disposal, as well as whether those reasons are consistent with the business goals for the purpose of which the Company has held those assets. Monitoring is part of the Company's ongoing analyses and estimates as to whether the model within which the remaining, non-disposed of assets are held is still appropriate and, if it is not adequate, whether there has been a change to the business model and thus a prospective change in the classification of those assets. The Company expects that it will not need to perform such changes in the forthcoming period.

The initial application of IFRS 9 is expected to have the following impact on the Company's financial assets as regards their classification and measurement:

- financial assets classified as held-to-maturity under IAS 39 that were measured at amortized cost will continue to be measured at amortized cost under IFRS 9 as they are held within a business model whose objective is to collect contractual cash flows and these cash flows consist solely of payments of principal and interest on the principal amount outstanding.

As from January 1, 2020, the Company will classify its financial assets as per subsequent measurement into the following categories:

1. financial assets at amortized cost (AC),
2. financial assets at fair value through the other comprehensive income (FVTOCI), and
3. financial assets at fair value through profit or loss (FVTPL).

based on:
a) the business model the Company uses to manage the financial assets, and,
b) characteristics of the contractual cash flows of the financial assets.

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

2.4. Standards and Interpretations in Issue, Taking Effect on January 1, 2020, under the Decision on Adoption of the Translations (Continued)

- ***IFRS 9 "Financial Instruments" (Continued)***

(i) Classification and Measurement of the Financial Assets and Liabilities (Continued)

The Company expects no changes in classification and measurement of its financial liabilities under IFRS 9 in comparison to those under IAS 39

(ii) Impairment of Financial Instruments under IFRS 9

The Company will apply the general approach with three impairment stages in calculation of the expected credit losses (ECL) for trade receivables and other loans and receivables and deposits placed with other entities. Cash and bank balances were assessed as low-level credit risk assets as they are held with reputable international banks and financial institutions, so the Company does not expect any impairment allowance in respect thereof.

The expected credit losses per financial assets (loans and receivables) will be recognized using the following impairment stages:

- Stage 1 – as soon as the financial asset is originated or purchased, 12-month expected credit losses are recognized for that instrument in the profit or loss (income) statement and impairment allowance is made as the approximate value, i.e., initial expectation of credit losses per that instrument. For such financial assets, interest income is calculated based on their gross carrying value (without reducing it for the expected credit losses).
- Stage 2 – if the credit risk of an asset has increased significantly since its initial recognition, and it was not assessed as a low-level risk, lifetime expected credit losses are recognized in the profit or loss (income) statement for the instrument. interest income calculation is the same as for the assets classified into Stage 1.
- Stage 3 – if the credit risk of an asset has increased significantly up to the level that the asset is considered as credit-impaired, interest income is calculated based on the net carrying value of the asset (i.e., the gross carrying value decreased by the impairment allowance). Lifetime expected credit losses are immediately recognized for such assets.

Generally, the Company anticipates an increase in the impairment allowance of the financial assets due to the application of expected credit loss (ECL) calculation in accordance with IFRS 9, but the effect thereof and of the first-time adoption of IFRS 9 on the Company's financial statements will be immaterial.

- ***IFRS 15 "Revenue from Contracts with Customers"***

IFRS 15 establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. IFRS 15 supersedes the previous revenue recognition guidance including IAS 18 "Revenue", IAS 11 "Construction Contracts" and the related Interpretations when it becomes effective.

The core principle of IFRS 15 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the Standard introduces a 5-step approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer,
- Step 2: Identify the performance obligations in the contract,
- Step 3: Determine the transaction price,
- Step 4: Allocate the transaction price to the performance obligations in the contract, and
- Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation.

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

2.4. Standards and Interpretations in Issue, Taking Effect on January 1, 2020, under the Decision on Adoption of the Translations (Continued)

- ***IFRS 15 “Revenue from Contracts with Customers” (Continued)***

Under IFRS 15, an entity recognizes revenue when (or as) a performance obligation is satisfied, i.e., when ‘control’ of the goods or services underlying the particular performance obligation is transferred to the customer.

The Company will use a retrospective method in transition to IFRS 15, whereby it will retain presentation of comparative figures in line with the previously effective standards. Except for more extensive disclosures on the Company’s revenue generating transactions, the Company does not expect that the first-time adoption of IFRS 15 will have a material impact on the Company’s financial position and performance. Therefore, the Company does not anticipate that it will need to recognize opening balance adjustments within equity in respect of the first-time adoption of IFRS 15 as of the initial application date, i.e., as of January 1, 2020.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

3.1. Income

Income from Service Sales and Rendering

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

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

Finance Income

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

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

Other Income

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

3.2. Expenses

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

Operating Expenses

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.2. Expenses (Continued)

Expenses are recognized in the income statement in accordance with the accrual accounting method and
Finance Expenses

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

Other Expenses

Other expenses include costs of damages caused by hotel guests and miscellaneous other expenses.

3.3. Foreign Currency Translation

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

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

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

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

3.4. Employee Benefits

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

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

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.

In the Company’s assessment, the amount of liabilities for retirement benefits as of December 31, 2019 was immaterial. Accordingly, the Company did not provide for the aforesaid liabilities as at the reporting date.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.4. Employee Benefits (Continued)

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.

In the Company's assessment, the amount of liabilities for unused annual leaves as of December 31, 2019 was immaterial. Accordingly, the Company did not provide for the aforesaid liabilities as at the reporting date.

3.5. Income Taxes

Current Income Tax

Current income tax is the amount calculated by applying the prescribed tax rate of 15% (2018: 15%) %) on the taxable income determined within the tax statement and reported in the annual corporate income tax return. The taxable base includes the profit before taxation shown in the statutory statement of income, as adjusted for differences that are specifically defined under statutory tax rules of the Republic of Serbia, less any prescribed tax credits.

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

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, 2017, deferred tax assets and liabilities were provided at the rate of 15%.

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

3.6. Intangible Assets

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

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

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

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

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 and carried at cost less allowance for accumulated depreciation and impairment losses, if any. Cost includes any costs directly attributable to the acquired assets.

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

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

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

Depreciation of property and equipment is computed on a straight-line basis by applying depreciation rates determined in such a manner that cost of property and equipment items is depreciated in equal annual amounts in order to fully write off the cost of the assets over their estimated useful lives. Depreciation of assets activated during the year commences upon the asset placement in use, i.e., in the month following the month in which the respective asset became available for its intended use.

The applied useful lives and depreciation rates in the current and previous accounting period are:

Asset	Useful life (years) 2019	Useful life (years) 2018
Buildings	33	33
Computer equipment	4.16	4.16
Motor vehicles	6.6	6.6
Furniture and other equipment	6.6	6.6

3.8. Impairment of Assets

At each balance sheet date, the Company’s management reviews the carrying amounts of the Company’s tangibles in order to determine the indications of impairment loss. If there is any indication that such assets have been impaired, the recoverable amount of the asset is estimated in order to determine the extent of impairment loss. In cases where it is impossible to assess the recoverable amount of an individual asset, the Company assesses the recoverable value of the cash generating unit to which the asset belongs.

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

If the estimated recoverable amount of assets (or cash generating unit) is below their carrying value, the carrying amount of the asset (or cash generating unit) is reduced to its recoverable amount. An impairment loss is recognized as an expense of the current period under operating expenses, except in case of land and buildings that are not used as investment property which is stated at revalued amount in which case impairment loss is presented as a loss on revaluation of assets.

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

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

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)

As of December 31, 2019, in the assessment of the Company's management, there were no indications that the Company's tangible assets, i.e., property, plant and equipment had suffered impairment.

3.9. Inventories

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

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

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

3.10. Financial Instruments

Financial Assets

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

Cash and Cash Equivalents

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

Loans and Receivables

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

Receivables comprise domestic and foreign trade receivables and other receivables.

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

Financial Assets Held to Maturity

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

Recognition of Financial Assets

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.10. Financial Instruments (Continued)

Financial Assets (Continued)

Measurement of Financial Assets

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

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

Derecognition of Financial Assets

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

Amortized Cost Measurement

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

Fair Value Measurement

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

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

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

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

Impairment of Financial Assets

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

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

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.10. Financial Instruments (Continued)

Financial Liabilities

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

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

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

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

Trade Payables

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

3.11. Provisions

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

4. SUMMARY OF THE KEY ACCOUNTING ESTIMATES

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

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

4.1. Depreciation and Amortization Charge and Rates Applied

The calculation of depreciation and amortization, as well as depreciation and amortization rates are based on the economic useful lives of buildings, equipment and intangible assets. At least once a year, the Company assesses the economic useful lives based on the current estimates.

In addition, due to the significance of the non-current assets within the total assets of the Company, any change in the aforesaid assumptions may result in materially significant effects on the financial position and performance of the Company. For example, should the Company shorten the average useful life of assets by 10%, this would have resulted in the additional depreciation/amortization charge for the year ended December 31, 2019 by approximately RSD 6,216 thousand (2018: RSD 5,992 thousand).

4. SUMMARY OF THE KEY ACCOUNTING ESTIMATES (Continued)

4.2. Allowance for Impairment of Receivables

Impairment allowance of bad and doubtful receivables is calculated based on estimated losses resulting from the inability of customers to settle the liabilities to the Company when due. The management estimates are based on the aging of trade receivables balance and historical write-off experience, customer credit-worthiness and changes in customer payment terms when evaluating the adequacy of the impairment allowance of doubtful receivables. This involves assumptions about future customer behavior and the resulting future collections. The management believes that no additional impairment allowance is required in excess of the allowance already recognized in these financial statements.

4.3. Provisions for Litigations

Generally, provisions are highly judgmental. The Company estimates the likelihood of unfavorable events happening as a result of past events and assesses the amount necessary to settle such liability. Although the Company acts prudently in making such estimates, given the great extent of uncertainty, in certain cases actual results may depart from these assessments.

4.4. Fair Value

It is a policy of the Company to disclose the fair value information of those components of assets and liabilities for which published or quoted market prices are readily available, and of those for which the fair value may be materially different from their carrying amounts. In the Republic of Serbia, sufficient market experience, stability and liquidity do not exist for the purchase and sale of receivables and other financial assets or liabilities, for which published market prices are presently not readily available. As a result, fair value cannot readily or reliably be determined in the absence of an active market.

Under IFRS 13, the Company measures the fair value of assets and liabilities using the assumptions that other market participants would use upon determining the price of an asset or a liability when acting in their best economic interest. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions regardless of whether that price is directly observable or estimated using another valuation technique.

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 have been 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.

Different fair value hierarchy levels are defined as follows:

- Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities accessible by the entity as at the measurement date. Level 1 input assumptions refer to the existence of a primary market for an asset or a liability or, in the absence of a primary market, the most favorable market for an asset or a liability; and to the entity's ability to realize a transaction involving an asset or a liability at the market price as at the measurement date.
- Level 2 – inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices). This level includes: the official active market prices of instruments with similar characteristics, official market prices of identical or instruments with similar characteristics in a market deemed less active or inactive, inputs other than official quoted prices if observables for assets or liabilities at issued and inputs supported by the market.
- Level 3 – unavailable or unobservable inputs for the assets or liabilities at issue, which the entity develops using the best possible information available under the current circumstances. All reasonably available information is considered regarding the assumptions of the market participants. Unobservable inputs are the assumptions used by the market participants and are suitable for the purpose of fair value measurement.

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2019
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4. SUMMARY OF THE KEY ACCOUNTING ESTIMATES (Continued)

4.4. Fair Value (Continued)

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

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

After initial recognition, property is carried at a revalued amount, being its fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

Any revaluation increase in the carrying amounts of property, plant and equipment arising on the revaluation of such property, plant and equipment is credited to equity to the line item of revaluation reserves, except to the extent that it reverses a revaluation decrease for the same asset previously recognized in profit or loss, in which case the increase is credited to profit or loss to the extent of the decrease previously charged.

A decrease in the carrying amount arising on the revaluation of such property, plant and equipment is charged to profit or loss. However, the revaluation decrease is charged directly to revaluation reserves to the extent previous revaluation reserve relating to that asset had been formed.

The Company's management believes that the net carrying values correspond to the fair values of its property as of December 31, 2019.

5. SALES OF PRODUCTS AND SERVICES

	Year Ended December 31, 2019	2018
Income from sales to a related party (Note 30)	5,296	2,365
Income from accommodation	110,555	120,232
Income from food	21,071	15,405
Income from daily rest	8	46
Other	8,778	11,797
	145,708	149,845

6. OTHER OPERATING INCOME

	Year Ended December 31, 2019	2018
Rental income	1,901	994
Other operating income	6,238	2,448
	8,139	3,442

NOTES TO THE FINANCIAL STATEMENTS
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7. COST OF MATERIALS

	Year Ended December 31, 2019	2018
Food, beverages and other restaurant goods	9,681	10,030
Maintenance materials	5,160	4,871
Write-off of tools and fixtures	1,937	2,254
	16,778	17,155

8. COSTS OF FUEL AND ENERGY

	Year Ended December 31, 2019	2018
Costs of electricity	5,236	4,643
Costs of heating	2,671	3,014
Costs of fuel	84	
	7,991	7,657

9. STAFF COSTS

	Year Ended December 31, 2019	2018
Employee gross salaries	45,050	37,478
Payroll taxes and contributions charged to the employer	5,776	6,112
Considerations payable per service contracts	1,949	2,370
Other staff costs	2,557	2,830
	55,332	48,790

10. COST OF PRODUCTION SERVICES

	Year Ended December 31, 2019	2018
Telecommunications, postage and transportation services	2,125	2,290
Maintenance	8,343	8,220
Rental costs	1,706	2,021
Marketing and advertising	369	191
Utilities	969	988
Laundry	2,549	2,619
Cost of other services	239	216
	16,300	16,617

11. DEPRECIATION/AMORTIZATION CHARGE

	Year Ended December 31, 2019	2018
Depreciation/amortization charge:		
- property and equipment (Note 17)	26,531	25,366
- intangible investments (Note 17)	674	618
	27,205	25984

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12. NON-MATERIAL COSTS

	Year Ended December 31, 2019	2018
Consultant services	2,703	2,678
Security services	1,269	1,046
IT network maintenance	778	624
Entertainment	1,099	1,307
Insurance premiums	2,087	1,929
Bank charges	2,860	2,405
Membership fees	4,234	5,421
Taxes and contributions payable	225	41
Entertainment	3,198	3,573
Fees payable to Orbis S.A. under the Management Agreement (Note 30)		
- trademark fees	1,137	1,228
- base management fees	1,475	470
- marketing fees	569	614
- management incentive fees	2,319	1,989
- distribution fees	2,843	4,109
- “Le Club“ fees	998	992
Other non-material costs	3,686	3,754
	31,480	32,180

13. FINANCE INCOME AND EXPENSES

Finance Income

	Year Ended December 31, 2019	2018
Interest income (from third parties)	239	363
Foreign exchange gains and positive currency clause effects (from third parties)	1,007	614
Other finance income	46	26
	1,292	1,003

Finance Expenses

	Year Ended December 31, 2019	2018
Interest expenses:		
- per borrowings, related parties	7,654	3,362
- per borrowings, third parties	1,412	8,541
- other interest expenses	-	77
	9,066	11,980
Foreign exchange losses and negative currency clause effects (to third parties)	358	341
	9,424	12,321

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14. OTHER INCOME AND OTHER EXPENSES

Other Income

	Year Ended December 31, 2019	2018
Surpluses	-	1,887
Other income, elsewhere not specified	6	162
	6	2,049

Other Expenses

	Year Ended December 31, 2019	2018
Shortages of materials	432	2,440
Other expenses, elsewhere not specified	62	5
	494	2,445

15. EARNINGS PER SHARE

	Year Ended December 31, 2019	2018
Net loss	(8,684)	(6,846)
Weighted average number of shares outstanding	63,859	77,311
Basic earnings per share (in RSD)	(135.99)	(88.55)

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

16. INCOME TAXES

a) Components of income taxes

	Year Ended December 31, 2019	2018
Current income tax expense	(631)	(869)
Deferred tax benefits	2,026	1,857
	1,395	988

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

	2019	2018
Loss before tax	(10,079)	(7,832)
Income tax at the statutory rate of 15%	(1,512)	(1,175)
Tax effects of expenses not recognized for tax purposes	117	180
Other	-	7
	(1,395)	(988)

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

16. INCOME TAXES (Continued)

c) Deferred tax liabilities

Deferred tax liabilities of RSD 53,562 thousand as of December 31, 2019 (31 December 2018: RSD 55,590 thousand) relate to the temporary difference between the amount at which property, equipment and intangible assets are recognized for the tax statement purposes and the carrying amounts of these assets.

Movements on the net deferred tax liabilities were as follows:

	2019	2018
Balance as at January 1	55,590	57,438
Recognized in the income statement		
- temporary differences on property, equipment and intangible assets	(2,026)	(1,848)
Other	(2)	-
Balance as at December 31	53,562	55,590

17. PROPERTY, PLANT, EQUIPMENT AND INTANGIBLE ASSETS

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

	Land	Buildings	Equipment and Other Assets	Investments in Progress; Advances Paid	Total	Intangible Assets
Cost						
Balance at January 1, 2018	147,937	680,486	48,006	62	876,491	6,199
Additions	-	786	5,796	7,809	14,391	276
Balance at December 31, 2018	147,937	681,272	53,802	7,871	890,882	6,475
Balance at January 1, 2019	147,937	681,272	53,802	7,871	890,882	6,475
Additions	-	10,755	6,426	-	17,181	646
Closing of advance payment	-	-		(7,809)	(7,809)	
Balance at December 31, 2019	147,937	692,027	60,228	62	900,254	7,121
Accumulated Depreciation/Amortization						
Balance at January 1, 2018	-	176,380	31,806	-	208,186	832
Charge for the year (Note 11)	-	20,443	4,923	-	25,366	618
Other	-	-	(4)	-	(4)	-
Balance at December 31, 2018	-	196,823	36,720	-	233,548	1,450
Balance at January 1, 2019	-	196,823	36,720	-	233,548	1,450
Charge for the year (Note 11)	-	20,757	5,774	-	26,531	674
Other						(2)
Balance at December 31, 2019	-	217,580	42,499	-	260,079	2,122
Net book value						
- December 31, 2019	147,937	474,447	17,729	62	640,175	4,999
- December 31, 2018	147,937	484,449	17,077	7,871	657,334	5,025

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

17. PROPERTY, PLANT, EQUIPMENT AND INTANGIBLE ASSETS (Continued)

The fair values of the Company’s land and buildings were determined by certified appraisers as of December 31, 2019. The fair value of land was assessed using the method of comparative market prices while the fair value of building properties was determined using the depreciated replacement cost method and income approach. According to the fair value assessibility, the applied method in the fair value assessment of land belongs to Level 2, while that used for building properties belongs to Level 3 of the fair value hierarchy under IFRS 13.

The table below presents the values of the Company’s land and building properties that would have been stated in the financial statements were they measured at cost:

	December 31 2019	December 31 2018
Land	242	242
Buildings*	257,472	255,438
	257,724	255,680

**The presented value of the Company's land and buildings represents their tax-purpose value that approximates the cost thereof less accumulated depreciation.*

In accordance with the requirements of IAS 36 – “Impairment of Assets”, the Company's management assessed the indications of impairment of land and buildings by considering inputs from both external and internal sources of information, including but not limited to:

- market interest rate movements,
- market capitalization movements,
- sensitivity analysis, and
- comparison of operating results (net cash flow, operating profit, hotel occupancy rates, etc.)

Based on the aforesaid analyses, management of the Company concluded that there were no indications that the values of land and buildings were below their book values as of December 31, 2019.

The Company instituted a mortgage over buildings with the net book value of RSD 474,447 thousand as of December 31, 2019 (December 31, 2018: RSD 484,449 thousand) to securitize timely repayment of borrowings.

18. LONG-TERM FINANCIAL INVESTMENTS

Other long-term financial investments presented in the amount of RSD 19,384 thousand as of December 31, 2018 entirely relate to term deposits placed with Vojvodjanska banka a.d. Novi Sad (EUR 164,000) which is an agent for a loan approved by the National Bank of Greece S.A., London Branch (Note 26. In 2019 the Company repaid the said loan and withdrew the aforesaid deposit.

19. INVENTORIES

	December 31, 2019	December 31 2018
Materials	327	613
Spare parts		61
Tools and fixtures		1,355
	327	2,029
Advances paid for inventories	116	162
	443	2,191

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20. TRADE RECEIVABLES

	December 31, 2019	December 31, 2018.
Trade receivables, domestic		
- related parties	936	-
- other related entities	-	230
- third parties	2,408	1,395
Trade receivables, foreign	2,342	1,396
	5,456	3,021

21. OTHER RECEIVABLES

	December 31, 2019	December 31, 2018
Receivables from employees		29
Receivables for prepaid income tax	3,236	4,099
Other current receivables	5,635	1,637
	8,871	5,765

22. CASH AND CASH EQUIVALENTS

	December 31, 2019	December 31, 2018
Current RSD account balances	10,720	5,504
Foreign currency account balances	23,244	5,293
	33,964	10,797

23. VALUE ADDED TAX RECEIVABLES AND LIABILITIES

As at December 31, 2019, the Company presented receivables for the value added tax paid upon import of goods in the amount of RSD 155 thousand and liabilities as per the difference between the output and input value added tax amounts of RSD 722 thousand (December 31, 2018: RSD 3,018 thousand).

24. EQUITY

The share capital recorded in the Company's books as a whole relates to ordinary (common stock) shares.

As at December 31, 2019, the share capital comprised 63,859 ordinary shares (December 31, 2018: 77,311 ordinary shares), with individual par value of RSD 1,000. All shares issued are fully paid in.

The Company's shareholder structure at December 31, 2019 was as follows:

Shareholder	Share Count	RSD '000	%
Lampsa AE Athens, Greece	63,859	63,859	100,00%
	63,859	63,859	100,00%

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24. EQUITY (Continued0

The Company's shareholder structure at December 31, 2019 was as follows:

Shareholder	Share Count	RSD '000	%
Lampsa AE Athens, Greece	62,104	62,104	80,33%
Other shareholders – private individuals	1,755	1,755	2,28%
Excelsior a.d. Beograd	13,452	13,452	17,39%
	77,311	77,311	100,00%

In 2019, the Company canceled 13,452 ordinary shares that were re-purchased by the Company in the previous period.

Changes on equity accounts during 2019 and 2018 are presented as follows:

	Share capital	Share premium	Treasury shares purchased	Revaluation reserves	Retained earnings	Loss	Total
Balance at January 1, 2018	77,311	-	-	411,955	32,122	-	521,388
Repurchase of own shares	-	(114,351)	(13,452)	-	-	-	-
Previous year profit reduced by share premium	-	114,351	-	-	(32,122)	(89,229)	(127,803)
Net loss for the year	-	-	-	-	-	(6,846)	(6.846)
Balance at December 31, 2018	77,311	-	(13,452)	411,955	-	(89,075)	386,739
Balance at January 1, 2019	77,311	-	(13,452)	411,955	-	(89,075)	386,739
Cancelation of repurchased treasury shares	(13,452)	-	13,452	-	-	-	-
Net loss for the year	-	-	-	-	-	(8,684)	(8,684)
Balance at December 31, 2018	63,859	-	-	411,955	-	(97,759)	378,055

The Company's revaluation reserves in the amount of RSD 411,955 thousand relate to revaluation reserves arising from the appraisal of land, property and equipment.

25. LONG-TERM PROVISIONS

As at December 31, 2019, the Company stated provisions for litigations in the amount of RSD 525 thousand provisions for retirement benefits in the amount of RSD 670 thousand (Note 32). During 2019, the Company did not make additional provisions on these grounds.

26. LONG-TERM LIABILITIES

RSD '000

	EUR	Maturity	December 31, 2019	December 31, 2018
BMP a.d., Beograd	1,100,288	April 2020	129,386	129,908
BMP a.d., Beograd	1,024,966	March 2024	120,533	-
National Bank of Greece S.A., London Branch	829,000	June 2022	-	98,032
			249,919	227,940
Less: Current portion of long-term liabilities			(129,386)	(23,639)
			120,533	204,301

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26. LONG-TERM LIABILITIES (Continued)

Long-term loans from a related party amounting to RSD 120,529 thousand net (EUR 1,024,966) as at December 31, 2019 relate to a long-term loan that the related party BMP a.d., Beograd approved to the Company with a repayment period until April 1, 2024, at an interest rate of 3.42% per annum. The purpose of the loan is early repayment of loans due to commercial banks. As collateral, the Company registered a mortgage lien over the property on cadastral lot 4939 as well as 10 blank promissory notes.

Current portion of RSD 129,386 thousand (EUR 1,100,287.85) relates to a loan approved to the Company by the related party BMP a.d., Beograd with a repayment period until April 1, 2020 at an interest rate of 3.42% per annum. The purpose of the loan is the purchase of shares from non-consenting shareholders and withdrawal of shares of a related party from the Belgrade Stock Exchange. As collateral, the Company provided a corporate guarantee issued on its behalf by ETERIA ELLINIKON KSENODOHION LAMPSA AE, Greece.

	December 31, 2019	December 31, 2018
- up to 1 year	129,386	23,639
- from 1 to 2 years	-	157,851
- from 2 to 3 years	-	46,450
- after 3 years	120,533	-
		227,940

27. SHORT-TERM FINANCIAL LIABILITIES

	December 31, 2019	December 31, 2018
Current portion of long-term borrowings (Note 26)	129,386	23,639
Short-term borrowings approved by commercial banks	-	22,457
	129,386	46,096

28. TRADE PAYABLES

	December 31, 2019	In thousand RSD December 31, 2018
Trade payables:		
- other domestic related parties (Note 30)	290	234
- domestic	3,296	2,576
- foreign	1,100	1,593
Other accounts payable	1,569	1,656
	6,255	6,059

29. OTHER CURRENT LIABILITIES

Other current liabilities presented as at December 31, 2019 in the amount of RSD 2,196 thousand entirely pertain to the Company's liability per cost of financing.

30. RELATED PARTY DISCLOSURES

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

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30. RELATED PARTY DISCLOSURES (Continued)

a) Balance Sheet

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

	December 31, 2019	December 31, 2018
Trade receivables (Note 20)		
- BMP a.d., Beograd	936	230
Total receivables	936	230
Trade payables (Note 27)		
- BMP a.d., Beograd	290	234
Borrowings (Note 25)		
- BMP a.d., Beograd	249,919	129,908
Total liabilities	**250,209**	**130,142**
Liabilities, net	**(249,273)**	**(129,912)**

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):		
- BMP a.d., Beograd	4,459	-
Total income	**4,459**	**-**
Costs of production services (Note 10):		
- BMP a.d., Beograd	(2,491)	(2,619)
Non-material costs:		
- ORBIS S.A. (Note 12)	(9.341)	(9,402)
Finance expenses		
- BMP a.d., Beograd	(7,654)	(3,362)
Total expenses	**(19,486)**	**(15,383)**
Expenses, net	**(15,027)**	**(15,383)**

31. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Capital Risk Management

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

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31. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

Capital Risk Management (Continued)

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

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

	December 31, 2019	December 31, 2018
Debt a)	252,115	250,397
Cash and cash equivalents	33,964	10,797
Net debt	**218,151**	**239,600**
Equity b)	378,055	386,739
Debt to equity ratio	**0.58**	**0.62**

a) Debt is related to long-term and short-term borrowings, other long-term liabilities, interest liabilities and cost of financing;
b) Equity includes share capital, reserves, retained earnings and accumulated losses

Significant accounting policies with reference to financial instruments

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

Categories of Financial Instruments

	December 31, 2019	December 31, 2018
Financial assets		
Other long-term financial investments	-	19,384
Trade receivables	5,456	3,021
Cash and cash equivalents	33,964	10,797
	39,420	33,202
Financial liabilities		
Long-term borrowings, domestic	120,533	204,301
Short-term borrowings, domestic	-	22,457
Current portion of long-term borrowings	129,386	23,639
Trade payables	4,686	4,403
Other short-term financial liabilities	2,196	-
Other liabilities	1,569	1,656
	258,370	**256,456**

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

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

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

Foreign Currency Risk

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

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

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

RSD '000

	Assets		Liabilities	
	December 31, 2019	December 31 2018	December 31 2019	December 31 2018
EUR	25,366	26,121	251,120	252,223
	25,366	26,121	251,120	252,223

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

RSD '000

	December 31, 2019	December 31, 2018
EUR	22,575	22,610
Impact on the current year's P&L	22,575	22,610

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

31. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

Market Risk (Continued)

Interest Rate Risk

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

	December 31, 2019	December 31, 2018
Financial assets		
Non-interest bearing		
Trade receivables	5,456	3,021
Cash and cash equivalents	33,964	10,797
	39,420	13,818
Variable interest rate		
Other long-term financial investments		19,384
	39,420	33,202
Financial liabilities		
Non-interest bearing		
Trade payables	4,686	4,401
Other short-term financial liabilities	2,196	-
Other liabilities	1,569	1,656
	8,451	**6,059**
Fixed interest rate		
Long-term borrowings, domestic	120,533	129,908
Current portion of long-term borrowings	129,386	-
	249,919	**129,908**
Variable interest rate		
Long-term borrowings, foreign	-	74,393
Short-term borrowings, domestic	-	22,457
Current portion of long-term borrowings	-	23,639
	-	120,489
	258,370	**256,456**

As at December 31, 2019, the Company was not sensitive to changes in the contractually defined interest rates for non-derivative instruments at the reporting date, as it had neither assets nor liabilities at variable interest rates.

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 major customers are presented in the following table:

	December 31, 2019	December 31 2018
Kuoni Global Travel Services	-	507
Telenor doo Beograd	151	10
Travco House	598	16
JacTravel Limited	294	483
Other customers	4,413	2,005
	5,456	5,228

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

31. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

Credit Risk (Continued)

Managing Trade Receivables (Continued)

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, matured but not provided for	1,395	-	1,395
Trade receivables, not matured	4,061	-	4,061
	5,456	-	5,456

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, matured but not provided for	-		-
Trade receivables, not matured	3,021	-	3,021
	3,021		3,021

Trade receivables, not matured

Trade receivables, not matured in the amount of RSD 4,061 thousand as at December 31, 2019 mostly relate to receivables from the sales of services in the last week of 2019. These receivables mainly mature within 8 days from the invoice date, depending on the contractual terms of payment. The average days sales outstanding in 2019 counted 8 days (2018: 3 days).

Trade receivables, matured but not provided for

The Company did not impair receivable matured amounting to RSD 1,395 thousand as at December 31, 2019 (December 31, 2018: RSD 0 thousand), given that no changes in customer credit worthiness were identified. These receivables were over a year past due.

Managing Trade Payables

The Company stated trade payables as amounting to RSD 4,686 thousand as of December 31, 2019 (December 31, 2018: RSD 4,403 thousand). Suppliers do not charge default interest against matured liabilities, whereas the Company duly settles trade payables, in accordance with its financial risk management policies in place. The average days payable outstanding in the course of 2019 counted 31 days (2018: 15 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 matching the maturities of financial assets and liabilities.

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31. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

Liquidity Risk (Continued)

Tables of Liquidity and Credit Risk

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

Maturities of Financial Assets

					December 31, 2019	
	Within 1 Month	From 1 to 3 Months	3 Months to 1 Year	From 1 to 5 Years	Over 5 years	Total
Non-interest bearing	39,420	-	-	-	-	39,420
	39,420	-	-	-	-	39,420

					December 31, 2018	
	Within 1 Month	From 1 to 3 Months	3 Months to 1 Year	From 1 to 5 Years	Over 5 years	Total
Non-interest bearing	13,818	-	-	-	-	13,818
Variable interest rate						
- principal	-	-	-	19,384	-	19,384
- interest	-	-	-	485	-	485
	-	-	-	19,869		19,869
	13,818	-	-	19,869	-	33,687

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	
	Within 1 Month	From 1 to 3 Months	3 Months to 1 Year	From 1 to 5 Years	Over 5 years	Total
Non-interest bearing	8,451	-	-	-	-	8,451
Fixed interest rate						
- principal	-	-	129,386	120,533	-	249,919
- interest	-	-	1,122	17,820	-	18,942
	-	-	130,508	138,353		268,861
	8,451	-	130,508	138,353	-	277,312

					December 31, 2018	
	Within 1 Month	From 1 to 3 Months	3 Months to 1 Year	From 1 to 5 Years	Over 5 years	Total
Non-interest bearing	6,059	-	-	-	-	6,059
Fixed interest rate						
- principal	-	-		129,908	-	129,908
- interest	-	-	4,496	1,122	-	5,618
	-	-	4,496	131,030	-	135,526
Variable interest rate						
- principal	-	-	46,096	74,393	-	120,489
- interest	-	-	1,452	12,344	-	13,796
	-	-	47,548	86,737	-	134,285
	6,059	-	52,044	217,767	-	275,870

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December 31, 2019
All amounts expressed in thousands of RSD, unless otherwise stated.

31. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

Fair Value of Financial Instruments

The following table provides the carrying values of the Company's financial assets and liabilities and their fair values as of December 31, 2019 and 2018:

	December 31, 2019		December 31, 2018	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial assets				
Other long-term financial investments	-	-	19,384	19,384
Trade receivables	5,456	5,456	3,021	3,021
Cash and cash equivalents	33,964	33,964	10,797	10,797
	39,420	**39,420**	**33,202**	**33,202**
Financial liabilities				
Long-term borrowings, domestic	120,533	120,533	204,301	204,301
Short-term borrowings, domestic	-	-	22,457	22,457
Current portion of long-term borrowings	129,386	129,386	23,639	23,639
Trade payables	4,686	4,686	4,403	4,403
Other short-term financial liabilities	2,196	2,196	-	-
Other liabilities	1,569	1,569	1,656	1,656
	258,370	**258,370**	**256,456**	**256,456**

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.

32. LITIGATION

As at December 31, 2019, the Company was involved in several legal suits on different grounds, with the aggregate amount claimed in these legal suits totaling RSD 4,540 thousand. Based on the opinion of the Company's attorneys and the assessment of the management, the Company accrued a liability in the amount of RSD 525 thousand (Note 25). Given the stage of the ongoing proceedings, the Company's management believes that it is not necessary to make additional provisions for contingent litigation losses in the financial statements for 2019.

33. CONTINGENT LIABILITIES

Land and building property stated as of December 31, 2019 in the amount of RSD 622,385 thousand are in the Company's ownership based on denationalization of property performed in a prior period. Pursuant to the Agreement on Acquisition of the Socially-Owned Capital executed with the Serbian Privatization Agency, the majority owner is also aware that the Company's assets include nationalized property and agrees to treat such property pursuant to the relevant law provisions. The Company's management holds that the Company will not suffer adverse effects resulting from the regulation of the nationalized property or incur outflows of resources in this respect.

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

34. EVENTS AFTER THE REPORTING PERIOD

COVID-19 Pandemic

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. In accordance with the requirements of IFRS, the Company has performed an assessment of its ability to continue as a going concern. 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.

The Company's management believes that this epidemic is a non-adjusting event after the reporting period (does not require adjustments to the financial statements). Although the aforementioned virus is still developing, at the issue date of these financial statements, it is difficult to estimate its further impact on the Company's operations.

Change of Majority Shareholder

On January 8, 2020, a change of ownership of 100% of the Company's shares was registered, whereby BMP a.d., Beograd became the owner of 63,859 shares outstanding.

35. TAXATION RISKS

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

In addition, the Company performs a substantial volume of business transactions with its related parties. In accordance with the tax regulations effective in the Republic of Serbia, the tax statement and the supporting documents, including a report on transfer prices, will be prepared and submitted to the Tax Administration until august 5, 2020. Although it is uncertain whether the interpretation of the Company’s management and supporting documentation will be sufficient, i.e., whether they will meet the requirements and interpretations of the tax and other authorities, the Company’s management believes that potential varying interpretations will have no material effects on the Company’s financial statements.

36. FOREIGN 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

APPENDICIES

APPENDIX 1

JOINT STOCK COMPANY FOR HOTEL MANAGEMENT, CATERING AND TOURIST SERVICES EXCELSIOR A.D., BEOGRAD

ANNUAL REPORT ON OPERATIONS FOR 2019

Translation of the Auditors' Report issued in the Serbian language

CONTENTS

ABOUT US

Corporate information

Name of the company:	Joint stock company for hotel management, catering and tourist services Excelsior a.d., Beograd
Number of Decision from Business Registers Agency:	BD41978
Company No:	06934218
Tax ID NO.:	100279522
Activity according to registration:	Hotels and similar accommodation, activity code 5510
Number of employees (average number of employees in 2019)	40
Web site & e-mail:	www.excelsioradbeograd.rs; HB1E1-GL1@accor.com
Particulars on share capital:	RSD 63.859.000 as at 31/12/2019
Number of issued shares:	63.859 (ordinary); ISIN No.: RSEXCLE67585; CFI code: ESVUFR; BELEX: EXCL
Number of treasury shares:	The company does not own its own shares
Audit company:	DELLOITE d.o.o., Belgrade, Company No.: 07770413

Particulars on Company's governance bodies

Members of Board of Directors:

Konstantinos Kyriakos, President of Board of Directors
Anastasios Chomenidis, Member of Board of Directors
Georgios Galanakis, Member of Board of Directors

President and Members of Board of Directors perform their function without compensation and they do not own shares of the Company. All members of Board of Directors have university education.

General Manager:

Anastasios Chomenidis, Director

General Manager Anastasios Chomenidis performs his function in the Company without compensation, he has no shares in the Company and he is not a member in supervisory boards of other companies. General Manager has university education.

Ownership structure

Information on ownership structure can be found on the website of the Central Securities Depository (www.crhov.rs). The ownership structure, at the time preparation of this report, is shown in the tables below:

Number of shareholders with equity interest	**Number of shares**		**% of all issued shares**	
	domestic	**foreign**	**domestic**	**foreign**
100%	1		1	
	63,859		**100,0000**	

Type of entity	**Number of shares**	**% of all issued shares**
Shares owned by legal entities	63,859	100
Collective i.e. custody account	-	-
	63,859	**100,0000**

Order of the first ten shareholders by number of shares and by number of votes:

Ordinal No.	**Shareholder**	**Number of shares**	**Total value in RSD**	**% of all issued shares**
1	LAMPSA S.A	63,859	63,859	100

Statement on Application of the Corporate Governance Code

The Company does not apply its own Corporate Governance Code, but it has adopted the text of the Corporate Governance Code of the Serbian Chamber of Commerce published in the Official Gazette of the Republic of Serbia No. 99/2012, as the Corporate Governance Code Excelsior a.d., Belgrade.

During 2019, there were no significant deviations from the established principles in the application of the Company's Corporate Governance Code.

Location

The registered office of the Company is in Belgrade at 5 Kneza Milosa Street.

Name of building	Area in m^2
Hotel Excelsior	3.054

Land (including the land under buildings):

Location	Purpose	Area in m2	Note
Belgrade, 5 Kneza Miloša St.	Urban construction land	505	Usage right

History of the hotel

The hotel was built in 1921 and started to operate on March 15, 1924. The original purpose of this building, built by Viennese architect, was the clinic Dr. Jovan Jovanović, but during the construction, the purpose was changed to a catering facility. In its rich history, it has been used for various purposes. Therefore, in the Second World War, it was German General Staff, and from 1945 to 1948 it was the Ministry of Agriculture and Forestry. The function of the hotel was restored in 1948 when it changed ownership, and since 2008 it has been privatized and today a Greek company Eteria Ellinikon Xenodohion Lampsa AE, Athens, Greece is a majority owner.

During the time when it operated as a catering facility, Hotel Excelsior Belgrade was characterized by a tradition of quality and good service.

Before Second World War, many celebrities and prominent persons stayed in the hotel such as actress Josephine Baker. Many famous writers have stayed in our hotel for a long time, such as our Nobel Prize winner - Ivo Andrić, Miloš Crnjanski, Vasko Popa, as well as other persons from public life.

Since it is located close to the Royal Palace and Parliament, in the middle of the 20th century, foreign and domestic statesmen, heads of state and government, princes and princesses often stayed in it.

Today, the hotel has four stars, and since 01/09/2017 it has been operating within the AccorHotels chain in accordance with a management contract with Orbis S.A.
It has 73 rooms on 7 floors, in the center of Belgrade. The main business activity of the hotel is the provision of hotel and catering services.

Organization

I.	***Office of General Manager of the Company***
1.	*General Manager of the Company*
2.	*General Manager of the Hotel*
3.	*First Level Manager*
4.	*Manager of the Hotel*
5.	*Marketing manager*
6.	*Sales Manager*
7.	*Accounting Officer for Payment and Invoicing*
8.	*Cost Controller*
II.	***Food and Beverage Department***
II.1.	***Restaurant Department – room service, banquet service***
1.	*Restaurant Manager*
2.	*Waiter*
III.	***Kitchen department***
III.1.	***Kitchen Sectors***
1.	*Executive chef*
2.	*Cook*
3.	*Confectioner*
4.	*Kitchen Assistant*
IV.	***Room Department***
IV.1.	***Reception Desk***
1.	*Reception Manager*
2.	*Shift Manager*
3.	*Reception Officer*
IV.2.	***Housekeeping Department***
1.	*Housekeeping Manager*
2.	*Housekeeping Manager*

Qualification structure of employees

Qualification and age structure of employees as at 31/12/2019 is shown in the following table:

Organizational unit/ Qualification		**II**	**III, IV**	**V, VI**	**VII, VIII**	**Total**	**%**
Management			6		2	**8**	20,00%
Reception			7	0		**7**	17,50%
Other		3	15	5	2	**25**	62,50%
Gender	female	3	21	2	4	**30**	75,00%
	male		9	1		**10**	25,00%
Total		**3**	**30**	**3**	**4**	**40**	**100,00%**
%		7,50%	75,00%	7,50%	10,00%	**100,00%**	

Compared to the previous year, the number of employees as at December 31 increased from 39 to 40 people.

2 HOTEL SERVICES MARKET

Belgrade is the leading city in Serbia in terms of hotel services and their quality, but still behind most of the capitals in Central and Eastern Europe. However, in the past there have been improvements in this sector especially with the adoption of the new Rulebook on Hotel Categorization. Until March 2010, when the new Rulebook came into force, the hotel industry in Serbia categorized tourist accommodation according to outdated regulations from 1994. The result was a heterogeneous offer of hotels within the same category in terms of service and quality of accommodation.

The new categorization has brought the domestic hotel sector closer to internationally accepted standards. Although this was the first step in the process of modernization of the hotel sector, it is considered very important because it regulated "chaos" in the market.

Diversity in hotel categorization is a global problem. For example, in Italy, each region has its own classification. Serbia has adopted its Rulebook in accordance with the Hotel Star Union association, which is part of the European Association of Hotels and Restaurants. The members of the Hotel Star Union are Germany, Austria, Sweden, Switzerland, Hungary, the Czech Republic and the Netherlands.

According to the new hotel regulation, hotel owners and directors are obliged to do a self-assessment of their own hotel capacities, i.e. the new hotel regulation prescribe the criteria on the basis of which hotels are categorized. In accordance with these Standards, relevant hotel staff will be able to make classification into a specific hotel category. The relevant inspection bodies are obliged to control the hotel capacities and check whether the established classification system has been met.

Most of the articles of the new Regulation refer to the technical aspects of hotels: fire protection systems, width of corridors, size of rooms, proximity to airports and quality of rooms. In general, Serbian hotels lack the provision of additional services such as hair salon, massage, recreation and swimming pools. That is why the new Hotel Regulation also takes these aspects into account.

The Serbian hotel industry is not competitive with other European countries, due to the lack of competent workforce, so hotel staff will be required to attend various trainings and courses in order to improve the overall quality of services offered in hotels and other types of accommodation.

3 RISK MANAGEMENT

Risk Management

The risk management process in our Company is formally regulated by the Risk Management Program, which is under the competence of the Board of Directors. This Program defines the form, flows and methodology of the risk management process, as well as the content and methodology of keeping the Risk Register. The portfolio of risks covered by the risk management process is designed so that the risks are classified into four basic groups, according to the basic model of the Company's objectives: strategic, reporting, compliance objectives and operational objectives.

The most significant inherent risks, which are included in the risk management process and are the subject of our intensive internal controls are:

- Strategic
  - Change of legal regulation in the field of production and trade of plant protection products in Serbia;
  - Entering the EU market (registration and commercial aspect);
  - Customer relations in the domestic market (business integration trend)
- Operational
  - Risks in production process - technological safety and reliability, health protection of employees, environmental protection
  - Risks in application of our products – product efficiency, safe application, environmental protection, health protection of consumers of agricultural products;
  - Collection of trade receivables;
  - Adequacy of staff structure and key employees;
  - Financial risks.

Independently of this process, the Company has established an internal audit function, with the aim of contributing to better risk management, asset protection and increasing overall efficiency. Internal audit activities in the Company are performed in accordance with the Rulebook on Internal Audit and they are under competence of the Audit Committee, i.e. the Board of Directors.

Financial risk management

Financial risks are measured on a time basis and are primarily avoided by reducing the Company's exposure to these risks. The established methodology of the financial risk management process aims to minimize potential negative impacts on financial operations in a situation of unpredictability of financial markets.

The Company does not use special financial instruments to avoid the impact of financial risks on operations because such financial instruments are not in widespread use, nor is there an organized market for these instruments in the Republic of Serbia.

The following financial risks have been identified in the Company's Risk Register:

- Market risks
  - Foreign exchange risk
  - Interest rate risk
  - Price risk
- Credit risk,
- Liquidity risk.

Exposure to foreign exchange risk is reflected in liabilities to suppliers from abroad (EUR), liabilities on loans, as well as in cash equivalents and cash. As instruments, risk management instruments are used to deposit free dinar funds as dinar deposits with a currency clause, which contributes to reducing the effect of negative exchange rate differences in the situation of depreciation of the national currency.

Exposure to interest rate risk is analyzed in borrowing from banks and placing free funds.

Exposure to price risk is the greatest in the procurement of raw materials, materials and works on renovation and investment maintenance. The Company applies measures to reduce the impact of this risk on operation, which are mainly related to the processes of long-term procurement planning and contracting long-term business cooperation with suppliers in the country and from abroad with more favorable payment terms.

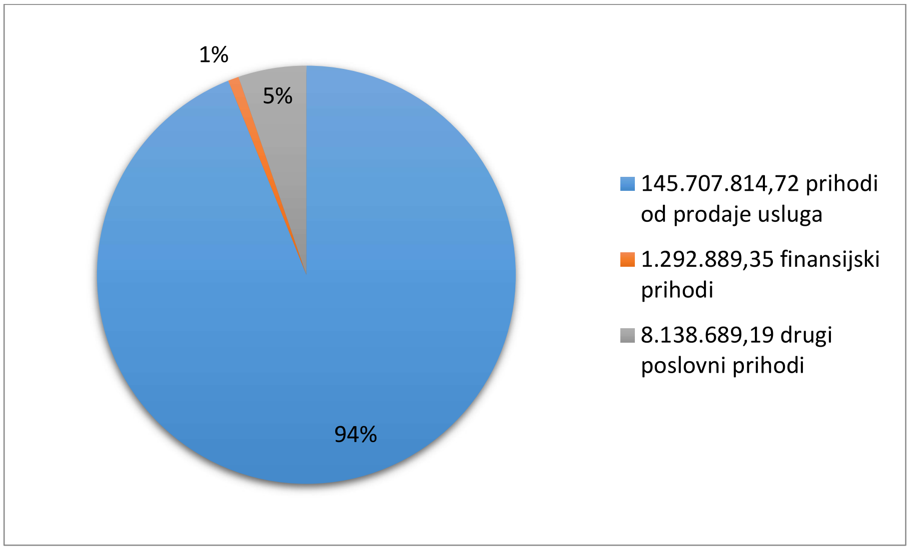
Exposure to liquidity risk is reduced by maintaining an appropriate level of cash reserves, continuous monitoring of planned and actual cash flows, as well as by maintaining an appropriate maturity ratio of financial assets and liabilities. Such monitoring includes monitoring of settlement of liabilities, harmonization with agreed conditions, harmonization with internally set goals, and is based on daily cash flow projections on the basis of which decisions are made on the use of possible external borrowing for which it provides adequate banking sources of financing while maintaining the level of unused credit lines, so that it does not exceed the allowed credit limit with banks.

The financial risk management strategy is based on reducing their impact on the Company's financial operations. Based on periodic assessments of exposure to inherent risks from this group, as well as assessments of existing internal controls, the Company estimates that residual financial risks are at an acceptable level, i.e. that the system of internal controls related to this risk group is very effective.

A more detailed description and analysis of the impact of individual risks from this group can be found in the Notes to the financial statements, in the section Financial instruments and Risk Management Objectives.

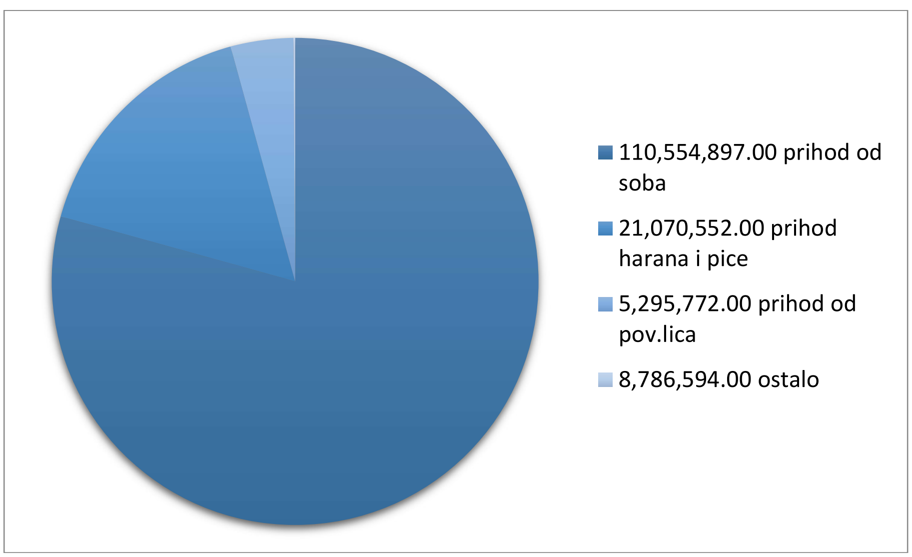
4 OPERATIONS IN 2019

Structure of total income



145,707,814.72 incomes from sale of services
1.292,889.35 financial income
8,138,689.19 other operating income

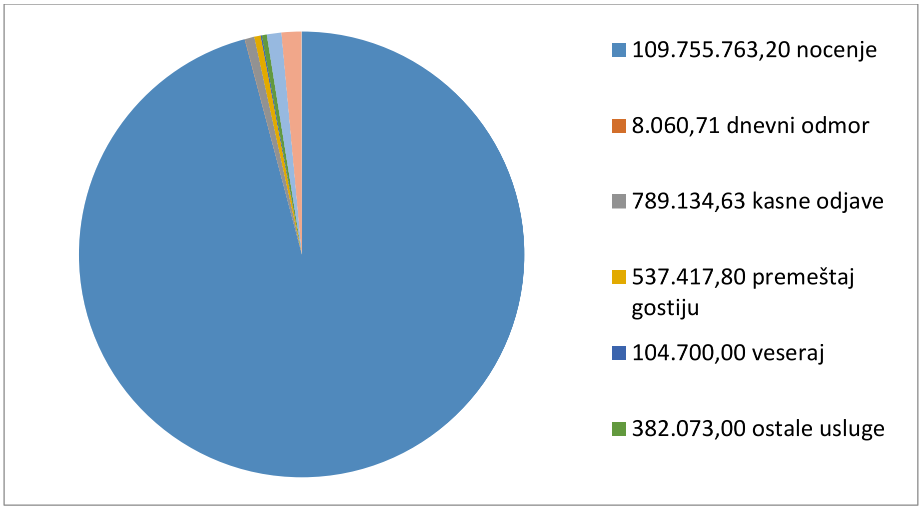
Structure of income from sale by type of services



110,554,897.00 income from rooms
21,070,552.00 income from food and beverages
5,295,772.00 income from related parties
8,786,594.00 other

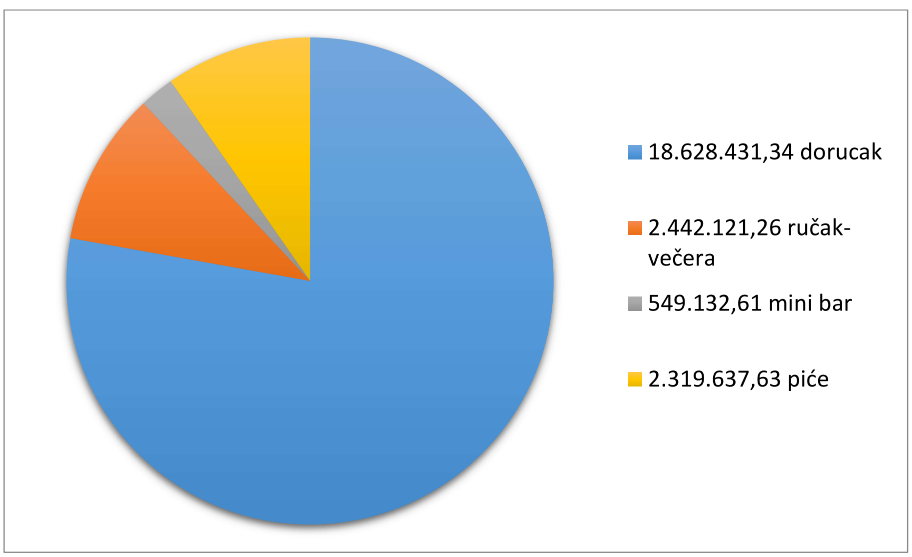
Sales by segments

Rooms



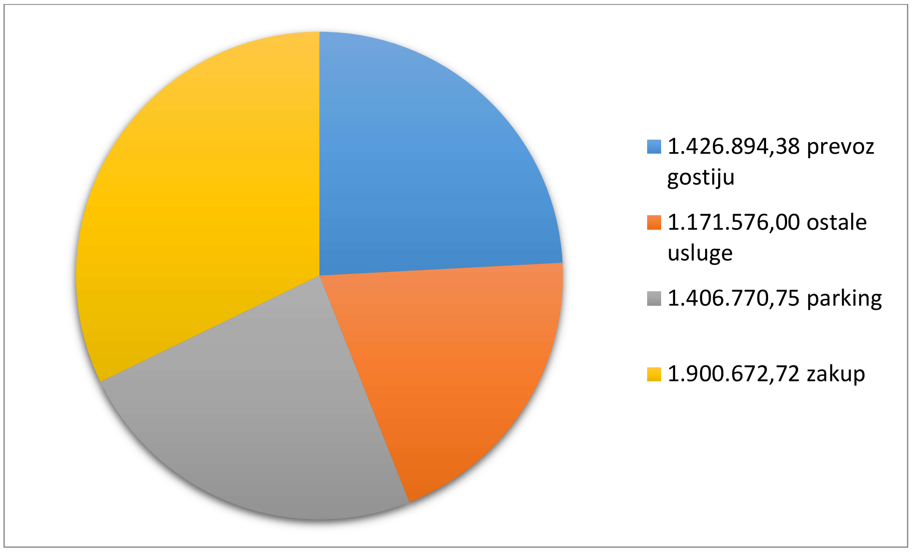
109,755,763.20 sleepover
8,060.71 daily rest
789,134.63 late checking out
537,417.80 relocation of guests
104,700.00 laundry
382,073.00 other services

Food and beverages



18,628,431.34 breakfast
2,442,121.26 lunch-dinner
549,132.61 mini-bar
2,319,637.63 beverage

Other



1,426,894.38 transport of guests
1,171,576.00 other services
1,406,770.75 parking
1,900,672.72 lease

Development and investment activities

In the future, the Company plans to maintain its position in its segment of the hotel market, i.e. to increase its participation in this segment, if the macroeconomic environment allows it. In the following period, the Company plans only investment maintenance of the hotel.

In 2019 there were no significant investment activities.

Environmental protection

In previous periods, the hotel changed the coal heating system and connected to the central city heating system, which significantly reduced the emission of harmful gases. In the renovation of the top floor of the hotel, materials and equipment that have an energy efficiency certificate were used.

Also, the Company has been applying environmental protection measures for many years, and in its operations all waste material is sorted by origin and prepared for recycling.

Operations with related parties

The relationship between the Company and related parties is regulated on a contractual basis under market conditions. Through equity interest that the parent company has in Beogradsko mešovito preduzeće a.d., Belgrade ("BMP"), the Company had the following business relations in 2019:

- Laundry services provided to the Company throughout the year by BMP a.d., Belgrade,
- Technical services provided by the Company to BMP a.d. Belgrade, since December 2019

5 FINANCIAL RESULTS IN 2019

Basic balance sheet indicators

BALANCE SHEET

	2017	**2018**	**2019**
		(In thousand RSD)	
ASSETS			
Property, plant and equipment	668,309	657,334	640,175
Intangible investments	5,367	5,025	4,999
Long-term financial investments	19,430	19,384	0
Fixed assets	693,106	681,743	645,174
VAT and prepayments and accrued income	410	512	720
Inventories and given advance payments	3,798	2,191	443
Receivables	10,337	8,786	14,327
Receivables for overpaid income tax			
Short-term financial investments			
Cash and cash equivalents	22,460	10,797	33,964
Non-current assets	37,005	22,286	49,454
Deferred tax assets	0	0	0
Total assets	730,111	704,029	694,628
Off-balance sheet assets	0	0	0

Until the date of issuance of the report, uncollected receivables from the balance as at December 31, 2019 amount to RSD 5,456 thousand.

EQUITY AND LIABILITIES	2017	(In thousand RSD) 2018	2019
Share capital	77,311	77,311	63,859
Other capital	0	0	0
Reserves	0	0	0
Revaluation reserves	411,955	411,955	411,955
Unrealized gains based on securities	0	0	0
Unrealized losses based on securities	0	(13,452)	0
Non-allocated profit	32,122	0	0
Loss	0	(89,075)	(97,759)
Equity	*521,388*	*386,739*	*378,055*
Long-term provisions	525	1,195	1,195
Long-term liabilities	98,214	204,301	120,533
Deferred tax liabilities	57,438	55,590	53,562
Operation liabilities	9,549	6,228	8,348
Short-term financial liabilities	42.012	46,096	129,386
Liabilities based on VAT, income tax	972	3,880	1,353
Other short-term liabilities	13	0	2,196
Short-term liabilities	52,546	56.204	11.897
Long-term provisions and liabilities	208,723	262,281	316,573
Total equity and liabilities	**730,111**	704,029	694,628
Off-balance sheet liabilities	0	0	0

Other long-term financial investments presented as at December 31, 2018 in the amount of RSD 19,384 thousand relate entirely to term deposits with Vojvodjanska banka ad Novi Sad (EUR 164,000) which is an intermediary agent on the basis of a loan granted by the National Bank of Greece S.A., London branch (Note 26). During 2019, the Company repaid the mentioned loan and distributed the said investment.

Both loans are secured by short-term foreign currency funds of the related legal entity of the Company with AIK banka ad, Belgrade.

The above mentioned loans were repaid during the accounting period. The Company settled the remaining long-term loan with a loan from a related party in the amount of EUR 1,025,000.

Long-term loans from the parent legal entity as at December 31, 2019 amount to RSD 120,533 thousand net (EUR 1,024,966) and relate to a long-term loan that the parent company BMP a.d.; Belgrade approved to the Company with a repayment period of April 1, 2024, with an interest rate of 3.42% per annum. The purpose of the approved loan is early settlement of liabilities on loans from commercial banks. The security is a mortgage over the property registered in CP 4939 as well as 10 blank solo bills of exchange.

Current maturities in the amount of RSD 129,386 thousand (EUR 1,100,287.85) relate to a loan approved by the parent company BMP a.d., Belgrade with a repayment period of April 1, 2020 with an interest rate of 3.42% per annum. The purpose of the approved loan is the purchase of shares from dissenting shareholders and withdrawal of shares of a related legal entity from the Belgrade Stock Exchange. The security is a corporate guarantee of ETERIA ELLINIKON KSENODOHION LAMPSA AE, Greece.

INCOME STATEMENT

	2017	(In thousand RSD) 2018	2019
OPERATING INCOME			
Income from sale	133,398	149,845	145,708
Other operating income	1,670	3,442	8,139
Change in inventory value	0	0	0
Total operating income	135,068	153,287	153,847
OPERATING EXPENSES			
Purchase value of goods sold	0	0	0
Cost of material for production	24,893	24,812	16,778
Staff costs	34,685	48,790	55,332
Depreciation charge	25,181	25,984	27,205
Other operating expenses	40,582	49,353	55,685
Total operating expenses	125,341	148,939	155,000
OPERATING PROFIT	9,727	4,348	(1,153)
Financial, non-operating and other income	8,168	3,052	1,298
Financial, non-operating and other expenses	10,953	15,232	10,224
Profit/loss before tax	6,942	(7,832)	(10,079)
Income tax	2.967	862	631
Deferred tax income	1,733	1,848	2,026
Net profit/(loss)	5,708	(6,846)	(8,684)

STRUCTURE OF RESULTS	**In RSD 000**			
	2017	**2018**	**2019**	**18/19**
Gross operating profit	110.175	110.175	129,078	
Operating gross profit margin	82%	82%		
Business gain	9.727	4.348	(1,153)	
Business gain margin	7%	7%		
EBITDA	34.908			
EBITDA margin	26%	26%		
Gross profit before tax	6.942	(7.832)	(10,079)	
Net profit	5.708	(6.846)	(8,684)	

Income and expenses structure

INCOME STRUCTURE	In RSD 000						
	2017	%	2018	%	2019		
OPERATING INCOME	**135,068**	**94%**	**153,287**	**94%**	**153,847**	**99%**	
Income from sales	133,398		149,845		145,708		
Rooms	102,722		120,232		110,555		
Food and beverage	26,616		21,010		21,071		
Other	4,060		8,603		8,786		
Other operating income	1,670		3,442		5,296		
FINANCE INCOME	**6,901**	**5%**	**1003**	**5%**	**1,292**	**1%**	
Interest income	693		363		239		
Positive foreign exchange differences	6,208		614		1,007		
Other financial income			26		46		
NON-OPERATING AND OTHER INCOME	**1,267**	**1%**	**2,665**	**1%**	**6**		
Gains on sale of fixed assets	0		0		0		
Collected written-off receivables	47		0		0		
Surpluses	1,018		2,049		6		
Other unmentioned income	202		616		86		
TOTAL INCOME	**143,236**	**100%**	**156,929**	**100%**	**155,225**	**100%**	

The sale of accommodation capacities, i.e. rooms as basic service, in 2019 decreased compared to 2018.

EXPENSE STRUCTURE	In RSD 000						
	2017	%	2018	%	2019	%	19/18
OPERATING EXPENSES	**125,341**	**92%**	**148,939**	**92%**	**155,000**		**104%**
Cost of material	17,022		17,155		16,778		97%
Fuel and energy	7,871		7,657		7,991		95%
Earnings and compensation	34,685		48,790		55,332		113 %
Production services	10,306		16,617		16,300		99%
Depreciation	25,181		25,984		27,205		102%
Intangible costs	26,921		32,180		31,480		105%
Tax	3,355		3,573				120%
FINANCE EXPENSES	**7,843**	**6%**	**12,195**	**6%**	**9,424**		**77%**
Interest	5,864		11,903		9,066		76%
Negative foreign exchange differences	1,979		292		358		22%
Other financial expenses	0		0				
NON-OPERATING EXPENSES	**3,110**	**2%**	**3,626**	**2%**	**494**		**137%**
Losses based on sale, decommissioning	0		0				0%
Shortages	1,681		2,440		494		203%
Impairment of trade receivables	0		0				0%
Write-offs of long-term financial investments	0		0				0%
Other unmentioned expenses	1,429		1,186				0%
TOTAL EXPENSES	**136,294**	**100%**	**164,760**	**100%**	**100%**		**121%**

Earnings and compensations are increased by 13% compared to 2018.
The amount of intangible costs was affected by costs incurred in accordance with the Management Agreement with Orbis S.A., Warsaw, Poland, a licensed representative of Accor Group, France in Serbia. Pursuant to the mentioned contract, Orbis S.A., Warsaw, Poland undertook to manage all hotel activities under the protective brand Mercure and in accordance with all brand standards for a period of ten years starting from September 1, 2017, when the hotel was opened under new name Hotel Mercure Belgrade Excelsior.

Ratio analysis

No.	INDICATOR	CALCULATION	2017	2018	2019
1	Return on equity (ROE)	Net gain / Equity	1,1%	(9%)	(14%)
2	Return on Assets (ROA)	Net gain / Total assets	0,8%	(1%)	(1%)
3	Share of own capital in total equity	Equity+long-term provisions / Total liability	71,5%	55%	55%
4	Share of borrowed capital in total equity	Total liability / Total liability	28,6%	37%	38%
5	Share of fixed and long-term capital in total equity	Equity+ long-term provisions.+long-term liabilities / Total liability	84,9%	84%	27%
6	Current ratio	Current assets / Short-term liabilities	0,70	0,48	0,38
7	First level liquidity ratio	Cash / Short-term liabilities	0,43	0,23	0,26
8	Second level liquidity ratio	Current assets - inventories / Short-term liabilities	0,63	0,36	0,38
9	Net current assets (in thousand RSD)	Current assets - / Short-term liabilities	(15,541)	(23.810)	(79.932)
10	Current assets turnover	Operating income / Net current assets	(8,69)	(6,88)	(3,11)
11	Receivables turnover ratio (RT)	Annual net sales revenue / Receivables	14,71	50,74	28,20
12	Receivables turnover in days (RTD)	Number of days in a year / Receivables turnover	25		

6 SHARES EXCELSIOR A.D., BEOGRAD

The share capital of EXCELSIOR a.d., Belgrade is divided into 63,859 ordinary shares (BELEX: EXCL) with nominal value each of RSD 1,000.00.

EXCL shares are traded on the Belgrade Stock Exchange using the prevailing price method.

Indicators

INDICATOR	CALCULATION	2017	2018	2019
EPS Earnings per share	Income per share (in RSD)	74		/
PE Price-earnings ratio	Market share price / Earnings per share	60,95		/
PB Price-book value	Market share price/ KKV	0,67		0,76
ROE Return of equity	Return on equity	1,09%		-2,10%
KKV Accounting value of share	In RSD	6,744.03		5,926.70
Market capitalization	In thousand RSD	347,900		287,365

Dividends paid

The company did not pay dividends in 2019.

7 OPERATING PLAN FOR 2020

The company expects to operate at full capacity in the coming period, which will result in even greater occupancy and better results. The main risk and threat to business is the global economic crisis, as well as increasing competition in the market segment in which the Company operates. The size and scope of risk depend on the speed of the general economic recovery and the growth of purchasing power of hotel service users. The business plan for 2020 was made before the COVID19 pandemic, which negatively affected the business plan.

Business result plan

In thousand RSD

	2018	2019	2020
OPERATING INCOME			
Income from sale	149,845	145,708	118,333
Other operating income	3,442	8,139	2,097
Change in inventory value	0	0	0
Total operating income	*153,287*	*153,847*	*120,430*
OPERATING EXPENSES			
Costs of material for production	24,812	24,769	21,524
Own work capitalized	0	0	0
Earnings of employees/other personal expenses	48,790	55,332	31,020
Depreciation	26,654	27,205	18,508
Other operating expenses	*48,683*	*47,694*	*34,019*
Total operating expenses	*148,939*	*155,000*	*105,071*
OPERATING PROFIT	**4,348**	**21,939**	**15,359**
Financial, non-operating and other income	8,985	8,139	6,290
Financial, non-operating and other expenses	10,953	9,424	7,667
Gain/loss before tax	(7,832)	(10,082)	13,980
Income tax	0	631	2,097
Deferred tax income/expenses	0	2,026	1,072
PROFIT, net	**14,452**	**10,138**	**15,005**

8 SIGNIFICANT BUSINESS EVENTS OCCURRED AFTER THE END OF BUSINESS YEAR FOR WHICH THE REPORT IS SUBMITTED

After the submission of the report for the past year, COVID19 pandemic occurred, which significantly affected the business of our hotel.

Belgrade,

Director

Anastasios Chomenidis

APPENDIX 1

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

	2019	2018
Operating income		
Sales of goods in domestic market		
Sales of products and services to other related parties in domestic market	38	-
Sales of products and services in domestic market	1,199	1,267
Other operating income	68	29
	1,305	1,296
Operating expenses		
Revenue from performance and commodity activation	1	1
Cost of materials	(142)	(145)
Cost of fuel and energy	(68)	(65)
Staff costs	(470)	(413)
Cost of production services	(138)	(140)
Depreciation/amortization charge	(231)	(220)
Long-term provisions	-	(6)
Non-material costs	(267)	(271)
	(1,315)	(1,259)
Loss from operations	(10)	37
Finance income		
Finance income from other related parties	-	-
Interest income (from third parties)	2	3
Foreign exchange gains and positive currency clause effects (third parties)	9	5
	11	8
Finance expenses		
Finance expenses to other related parties	(65)	(28)
Interest expenses (to third parties)	(12)	(72)
Foreign exchange losses and negative currency clause effects (to third parties)	(3)	(4)
	(80)	(104)
Loss from financing activities	(69)	(96)
Other income	-	17
Other expenses	(4)	(21)
Profit from continuing operations before taxes	(83)	(62)
Net profit from discontinued operations, effects of changes in the accounting policies and prior years' error adjustment	(3)	(5)
Current income tax expense	(5)	(7)
Deferred tax benefits	17	16
NET PROFIT FOR THE YEAR	(74)	(58)

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 Satatement for the years ended December 31, 2019 and 2018 was performed using the following average exchange rates:

- 2018: 118.2716
- 2019: 117.8524

APPENDIX 2

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

	December31, 2019	December31, 2018
ASSETS		
Non-current assets	**5,487**	**5,768**
Intangible assets		
Concessions, patents, licenses, trademarks, software and other rights	43	43
Property, plant and equipment	5,444	5,561
Land	1,258	1,252
Buildings	4,035	4,099
Plant and equipment	150	144
Other property, plant and equipment	1	1
Advances paid for property, plant and equipment	1	67
Long-term financial investments		
Other long-term investments	-	164
Current assets	**420**	**189**
Inventories	4	19
Materials, spare parts, small tools and fixtures	3	18
Advances paid for inventories and services	1	1
Trade receivables	46	26
Domestic – other related parties	6	-
Foreign – other related parties	2	2
Domestic	20	12
Foreign	18	12
Other receivables	75	49
Cash and cash equivalents	289	91
Prepayments VAT	1	-
Prepayments active accruals	5	4
Total assets	**5,907**	**5,957**

(Continued)

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

	December 31, 2019	December 31, 2018
EQUITY AND LIABILITIES		
Equity	**3,215**	**3,272**
Share capital	786	952
Treasury shares purchased	-	(114)
Reserves	4,914	4,914
Prior years' accumulated losses	(753)	(695)
Current year loss	(74)	(58)
Translation reserves	(1,658)	(1,727)
Non-current provisions and liabilities	**1,035**	**1,739**
Provisions for retirement and other employee benefits	6	6
Provisions for litigations	4	4
Other long-term liabilities-related	1,025	1,099
Other long-term liabilities - foreign	-	630
Deferred tax liabilities	**455**	**470**
Current liabilities	**1,202**	**476**
Short-term financial liabilities		
Other short-term financial liabilities-related parties	1,100	390
Advances, deposits and retainers received	18	1
Trade payables	53	51
Domestic – other related parties	2	2
Domestic	28	22
Foreign	9	13
Other	13	14
Other current liabilities	20	-
Value added tax payable	6	26
Other taxes, contributions and duties payable	5	8
Total equity and liabilities	**5,907**	**5,957**

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, 2018 except for the share capital, revaluation reserves and net profit were translated using the closing rate: 118.1946
- Balance Sheet items at December 31, 2019 except for the share capital, revaluation reserves and net profit were translated using the closing rate: 117,5928
- Share capital at December 31, 2017 and December 31, 2016 was translated using the historical exchange rate: 81.2203
- Revaluation reserves at December 31, 2017 and December 31, 2016 were translated using the exchange rate at the date of revaluation of property, plant and equipment: 83.8286.
- Net loss for the years ended December 31, 2018 was translated using the average exchange rate 118.2716
- Net loss for the years ended December 31, 2019 was translated using the average exchange rate 117.8524