

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

**Financial Statements
Year Ended December 31, 2014 and
Independent Auditors' Report**

CONTENTS

	Page
Independent Auditors' Report	1 - 2
Financial Statements:	
Income Statement	3
Statement of Other Comprehensive Income	4
Balance Sheet	5
Statement of Changes in Equity	6
Statement of Cash Flows	7
Notes to the Financial Statements	8 - 37
Appendix 1 – Income Statement presented in EUR	
Appendix 2 – Balance Sheet presented in EUR	

Translation of the Auditors' Report issued in the Serbian language

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements (pages 3 to 37) of Beogradsko Mešovito Preduzeće a.d., Belgrade (the "Company"), which comprise the balance sheet as at December 31, 2014, and the related income statement, statement of other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of the significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Beogradsko Mešovito Preduzeće a.d., Belgrade, as of December 31, 2014, and its financial performance and cash flows for the year then ended in accordance with the accounting regulations of the Republic of Serbia.

Emphasis of Matter

We draw attention to Note 37 to the financial statements, disclosing that the aggregate amount claimed in legal suits filed against the Company amounted to RSD 191,048 thousand as of December 31, 2014, excluding any penalty interest that could be charged upon completion of the proceedings. At the reporting date the Company recognized provisions for potential losses that may arise from the aforesaid legal suits in the amount of RSD 58,451 thousand. The Company's management believes that the outcome of all the ongoing legal suits cannot be anticipated with certainty given the early stage of some of those suits and that the Company will therefore not be exposed to materially significant potential losses in this respect except for the provisions presented within the accompanying financial statements. Our opinion is not qualified in respect of this matter.

(Continued)

INDEPENDENT AUDITORS' REPORT

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

Report on Other Requirements

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

Belgrade, April 30, 2015

Žarko Mijović
Certified Auditor

INCOME STATEMENT
Year Ended December 31, 2014
(Thousands of RSD)

	Note	2014	2013
OPERATING INCOME			
Sales revenues			
- sales of goods	5	81,327	91,515
- sales of products and services	6	968,374	1,138,358
Other operating income	7	41,901	47,324
		<u>1,091,602</u>	<u>1,277,197</u>
OPERATING EXPENSES			
Cost of goods sold		(16,076)	(17,055)
Cost of materials	8	(131,391)	(140,035)
Cost of fuel and energy	9	(60,712)	(53,758)
Staff costs	10	(328,510)	(343,397)
Cost of production services	11	(60,795)	(61,632)
Depreciation/amortization charge	12	(155,073)	(173,526)
Provisions	13	(56,175)	-
Non-material costs	14	(174,112)	(226,597)
		<u>(982,844)</u>	<u>(1,016,000)</u>
PROFIT FROM OPERATIONS		<u>108,758</u>	<u>261,197</u>
Finance income	15	24,596	114,906
Finance expenses	15	(120,871)	(114,149)
Other income	16	1,631	7,258
Other expenses	16	(878)	(2,362)
PROFIT FROM CONTINUING OPERATIONS BEFORE TAXES		<u>13,236</u>	<u>266,850</u>
INCOME TAXES			
Current income tax expense	17	(10,462)	(34,344)
Deferred tax benefit	17	2,798	10,113
NET PROFIT		<u>5,572</u>	<u>242,619</u>

STATEMENT OF OTHER COMPREHENSIVE INCOME
Year Ended December 31, 2014
(Thousands of RSD)

	2014	2013
NET OPERATING RESULT		
NET PROFIT FOR THE YEAR	5,572	242,619
OTHER COMPREHENSIVE INCOME	-	-
a) Items that will not subsequently be reclassified to the income statement		
1. Gains/losses on revaluation of intangible assets, property, plant and equipment	-	-
2. Actuarial gains/losses based on defined benefit plans	-	-
3. Gains/losses on investments in equity instruments	-	-
4. Gains/losses from the share in the other comprehensive income of associates	-	-
b) Items that may subsequently be reclassified to the income statement		
1. Foreign exchange gains/losses on translation of foreign operations	-	-
2. Gains/losses on hedging instruments designated in hedges of the net assets of foreign operations	-	-
3. Gains/losses on hedging instruments designated in hedges of the cash flows	-	-
4. Gains/losses on securities available for sale	-	-
TOTAL POSITIVE COMPREHENSIVE INCOME FOR THE YEAR, NET	5,572	242,619

BALANCE SHEET
As at December 31, 2014
(Thousands of RSD)

	Note	December 31, 2014	December 31, 2013
ASSETS			
Non-current assets			
Intangible assets	19	23,023	26,315
Property, plant and equipment	18	2,651,445	2,636,671
		<u>2,674,468</u>	<u>2,662,986</u>
Current assets			
Inventories	20	30,203	33,708
Accounts receivable	21	34,098	25,645
Receivable from specific transaction		78	115
Other receivables	22	22,175	3,487
Short-term financial investments	23	10,148	25
Cash and cash equivalents	24	203,797	291,759
Prepayments	25	11,146	11,958
		<u>311,645</u>	<u>366,697</u>
Total assets		<u>2,986,113</u>	<u>3,029,683</u>
EQUITY AND LIABILITIES			
Equity and reserves			
Share capital	26	2,702,379	2,702,379
Reserves		361,669	361,669
Retained earnings		419,406	413,834
Loss		<u>(1,217,950)</u>	<u>(1,217,950)</u>
		<u>2,265,504</u>	<u>2,259,932</u>
Long-term provisions and liabilities			
Long-term provisions	27	58,451	2,276
Long-term borrowings	28	279,159	401,135
Finance lease liabilities	29	339	1,604
Other long-term liabilities		178	-
		<u>338,127</u>	<u>405,015</u>
Current liabilities			
Short-term financial liabilities	30	196,687	164,535
Advances received	31	5,027	2,948
Accounts payable	31	20,734	15,421
Other current liabilities	32	2,842	753
Value added tax		8,308	6,705
Tax, customs and other public duties payable	33	236	16,640
Accrued expenses	34	33,569	39,857
		<u>267,403</u>	<u>246,859</u>
Deferred tax liabilities	17	<u>115,079</u>	<u>117,877</u>
Total equity and liabilities		<u>2,986,113</u>	<u>3,029,683</u>

STATEMENT OF CHANGES IN EQUITY
Year Ended December 31, 2014
(Thousands of RSD)

	<u>Share Capital</u>	<u>Revaluation Reserves</u>	<u>Retained Earnings</u>	<u>Loss</u>	<u>Total</u>
Balance, January 1, 2013	2,702,379	361,669	171,215	(1,217,951)	2,017,312
Net profit for the year	-	-	242,619	-	242,619
Other	-	-	-	1	1
Balance, December 31, 2013	<u>2,702,379</u>	<u>361,669</u>	<u>413,834</u>	<u>(1,217,950)</u>	<u>2,259,932</u>
Balance, January 1, 2014	2,702,379	361,669	413,834	(1,217,950)	2,259,932
Net profit for the year	-	-	5,572	-	5,572
Balance, December 31, 2014	<u>2,702,379</u>	<u>361,669</u>	<u>419,406</u>	<u>(1,217,950)</u>	<u>2,265,504</u>

CASH FLOW STATEMENT
Year Ended December 31, 2014
(Thousands of RSD)

	2014	2013
Cash flows from operating activities		
Cash receipts from customers	1,187,020	1,376,603
Interest received	5,357	1,756
Other receipts from operations	31,593	49,051
Cash paid to suppliers	(500,241)	(566,682)
Cash paid to and on behalf of employees	(326,490)	(302,144)
Interest paid	(17,084)	(22,878)
Income taxes paid	(47,800)	(18,895)
Other public duties paid	(69,942)	(101,795)
Net cash generated by operating activities	262,413	415,016
Cash flows from investing activities		
Purchase of property, plant and equipment	(166,554)	(68,674)
Other financial investments (net outflows)/net inflows	(10,123)	136
Net cash used in investing activities	(176,677)	(68,538)
Cash flows from financing activities		
Long-term and short-term liabilities net inflows	177	6,267
Other long-term and short-term borrowings (net outflows)	(178,334)	(202,669)
Financial leasing (net outflows)	(1,195)	(1,289)
Net cash used in financing activities	(179,352)	(197,691)
Net (decrease)/increase in cash and cash equivalents	(93,616)	148,787
Cash and cash equivalents, beginning of year	291,759	138,763
Foreign exchange gains on translation of cash	5,654	4,209
Cash and cash equivalents, end of year	203,797	291,759

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2014

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

1. FOUNDATION AND ACTIVITY

The Hotel Shareholding Company Beogradsko Mešovito Preduzeće a.d, Belgrade (the "Company") was founded pursuant to the Articles of incorporation executed on April 14, 1989 by and between North Haven Limited, Hong Kong (holding a 93.94% equity interest) and two domestic companies (holding jointly the remaining 6.06% equity interest). Until 2006 North Haven Limited, Hong Kong was owned by Hyatt International Holdings Co., domiciled in the USA. As of June 6, 2006 Hyatt International Holdings Co., sold its equity interest in North Haven Limited, Hong Kong to Luella Enterprises Company Limited, Nicosia, owned by Lampsa Hellenic Hotel Company S.A., Athens. The Company was registered and entered into the Court Registry under Decision of the District Court of Belgrade no. Fi 4224/89 dated October 10, 1998. Under Decision no. BD 22440/2005 dated June 13, 2005, the Company was transferred from the Registry of the Commercial Court to the Business Entity Register maintained by the Serbian Business Registers Agency pursuant to the Company Law.

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

The Company's tax identification number (fiscal code) is 100000805, and its corporate ID number is 07456263.

As of December 31, 2014 the Company had 198 employees (December 31, 2013: 192 employees).

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

2.1. Basis of Preparation and Presentation of Financial Statements

Legal entities and entrepreneurs incorporated in 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 the Law on Accounting (hereinafter referred as: the "Law", Official Gazette of the Republic of Serbia no. 62/2013). As a medium-sized legal entity, the Company has elected to apply International Financial Reporting Standards ("IFRS"), which as per the aforementioned Law comprise the following: the Framework for the Preparation and Presentation of Financial Statements (the "Framework"), International Accounting Standards ("IAS"), International Financial Reporting Standards ("IFRS"), as well as the related interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC") and additional related interpretations issued by International Accounting Standards Board ("IASB"), the translations of which to the Serbian language were approved and issued by the competent Ministry of Finance.

The Ministry's Decision dated March 13, 2014, published in the Official Gazette of the Republic of Serbia no. 35 on March 27, 2014 ("Decision on Adoption of the Translations") adopted the translation of the basic texts of the IFRS and IAS, the Conceptual Framework for Financial Reporting and (the "Conceptual Framework") issued by IASB, and the related interpretations issued by IRFIC. 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. Amended IFRS and related interpretations or those issued after the aforesaid date have not been officially translated and published and were therefore not applied in preparation of the accompanying financial statements.

However, until the preparation date of the accompanying financial statements, not all amendments to IAS/IFRS and IFRIC in effect for annual periods beginning on or after January 1, 2014 had been translated. In addition, certain laws and bylaws stipulate accounting procedures, measurement and disclosures which in certain instances depart from the requirements of IAS/IFRS and IFRIC.

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

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2014

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

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

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

Standards and interpretations issued that came into effect in the current period pursuant to the Decision on Adoption of the Translations are disclosed in Note 2.2. Standards and interpretations in issue but not yet officially translated and adopted are disclosed in Note 2.3. Standards and interpretations in issue but not yet in effect are disclosed in Note 2.4.

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

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

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

2.2. Standards and Interpretations Issued that Came into Effect in the Current Period Pursuant to the Decision on Adoption of the Translations

- Amendments to IFRS 7 "Financial Instruments: Disclosures" – Amendments improving fair value and liquidity risk disclosures (revised in March 2009, effective for annual periods beginning on or after January 1, 2009);
- Amendments to IFRS 1 "First-Time Adoption of IFRS" – Additional Exemptions for First-Time Adopters. The amendments relate to assets in oil and gas industry and determining whether an arrangement contains a lease (revised in July 2009, effective for annual periods beginning on or after January 1, 2010);
- Amendments to various standards and interpretations resulting from the Annual Quality Improvement Project of IFRS published on April 16, 2009 (IFRS 5, IFRS 8, IAS 1, IAS 7, IAS 17, IAS 36, IAS 39, IFRIC 16) primarily with a view to removing inconsistencies and clarifying wording, (amendments are to be applied for annual periods beginning on or after 1 January 2010, while the amendment to IFRIC is to become effective as of July 1, 2009);
- Amendments to IAS 38 "Intangible Assets" (revised in July 2009, effective for annual periods beginning on or after July 1, 2009);
- Amendments to IFRS 2 "Share-Based Payment": Amendments resulting from the Annual Quality Improvement Project of IFRS (revised in April 2009, effective for annual periods beginning on or after July 1, 2009) and amendments relating to group cash-settled share-based payment transactions (revised in June 2009, effective for annual periods beginning on or after January 1, 2010);
- Amendments IFRIC 9 "Reassessment of Embedded Derivatives" effective for annual periods beginning on or after July 1, 2009 and IAS 39 "Financial Instruments: Recognition and Measurement" – Embedded Derivatives (effective for annual periods beginning on or after June 30, 2009);
- IFRIC 18 "Transfers of Assets from Customers" (effective for annual periods beginning on or after July 1, 2009);
- "Conceptual Framework for Financial Reporting 2010" being an amendments to "Framework for the Preparation and Presentation of Financial Statements" (effective for transfer of assets from customers received on or after September 2010);
- Amendments to IFRS 1 "First-time Adoption of International Financial Reporting Standards" – Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters (effective for annual periods beginning on or after July 1, 2010);
- Amendments to IAS 24 "Related Party Disclosures" – Simplifying the disclosure requirements for government-related entities and clarifying the definition of a related party (effective for annual periods beginning on or after January 1, 2011);

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2014

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

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

2.2. Standards and Interpretations Issued that Came into Effect in the Current Period Pursuant to the Decision on Adoption of the Translations (Continued)

- Amendments to IAS 32 “Financial Instruments: Presentation” – Accounting for Rights Issues (effective for annual periods beginning on or after February 1, 2010);
- Amendments to various standards and interpretations “Improvements to IFRSs” resulting from the Annual quality improvement project of IFRS published on May 6, 2010 (IFRS 1, IFRS 3, IFRS 7, IAS 1, IAS 27, IAS 34, IFRIC 13) primarily with a view to removing inconsistencies and clarifying wording, (most amendments are to be applied for annual periods beginning on or after January 1, 2011);
- Amendments to IFRIC 14 “IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and Their Interaction” – Prepayments of a Minimum Funding Requirement (effective for annual periods beginning on or after January 1, 2011);
- IFRIC 19 “Extinguishing Financial Liabilities with Equity Instruments” (effective for annual periods beginning on or after July 1, 2010);
- Amendments to IFRS 1 “First-Time Adoption of IFRS” – Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters (effective for annual periods beginning on or after July 1, 2011);
- Amendments to IFRS 7 “Financial Instruments: Disclosures” – Transfers of Financial Assets (effective for annual periods beginning on or after January 1, 2011);
- Amendments to IAS 12 “Income Taxes” – Deferred Tax: Recovery of Underlying Assets (effective for annual periods beginning on or after January 1, 2012);
- IFRS 10 “Consolidated Financial Statements” (effective for annual periods beginning on or after January 1, 2013);
- IFRS 11 “Joint Arrangements” (effective for annual periods beginning on or after January 1, 2013);
- IFRS 12 “Disclosures of Involvement with Other Entities” (effective for annual periods beginning on or after January 1, 2013);
- Amendments to IFRS 10, IFRS 11 and IFRS 12 “Consolidated Financial Statements, Joint Arrangements and Disclosures of Involvement with Other Entities: Transition Guidance” (effective for annual periods beginning on or after January 1, 2013);
- IAS 27 (revised in 2011) “Separate Financial Statements” (effective for annual periods beginning on or after January 1, 2013);
- IAS 28 (revised in 2011) “Investments in Associates and Joint Ventures” (effective for annual periods beginning on or after January 1, 2013);
- IFRS 13 “Fair Value Measurement” (effective for annual periods beginning on or after January 1, 2013);
- Amendments to IFRS 1 “First-time Adoption of International Financial Reporting Standards” – Government Loans with a Below-Market Rate of Interest (effective for annual periods beginning on or after January 1, 2013);
- Amendments to IFRS 7 “Financial Instruments: Disclosures” – Offsetting Financial Assets and Financial Liabilities (effective for annual periods beginning on or after January 1, 2013);
- Amendments to IAS 1 “Presentation of Financial Statements” – Presentation of Items of Other Comprehensive Income (effective for annual periods beginning on or after July 1, 2012);

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2014

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

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

2.2. Standards and Interpretations Issued that Came into Effect in the Current Period Pursuant to the Decision on Adoption of the Translations (Continued)

- Amendments to IAS 19 “Employee Benefits” – Improvements to the Accounting for Post-Employment Benefits (effective for annual periods beginning on or after January 1, 2013);
- Amendments to various standards “Improvements to IFRSs (2009-2011 Cycle)” issued in May 2012, resulting from the annual improvement project of IFRS (IFRS 1, IAS 1, IAS 16, IAS 32, IAS 34) primarily with a view to removing inconsistencies and clarifying wording (amendments are to be applied for annual periods beginning on or after January 1, 2013); and
- IFRIC 20 “Stripping Costs in the Production Phase of a Surface Mine” (effective for annual periods beginning on or after January 1, 2013).

2.3. Standards and Interpretations in Issue but not yet Translated and Adopted

As of the financial statements issuance date, the following standards and amendments were issued by IASB and interpretations issued IFRIC, but were not officially adopted and translated in the Republic of Serbia:

- Amendments to IAS 32 “Financial Instruments: Presentation” – Offsetting Financial Assets and Financial Liabilities (effective for annual periods beginning on or after January 1, 2014).
- Amendments to IFRS 10 “Consolidated Financial Statements”, IFRS 12 “Disclosures of Involvement with Other Entities” and IAS 27 “Separate Financial Statements” - Exemption from Consolidation of Subsidiaries under IFRS 10 ‘Consolidated Financial Statements (effective for annual periods beginning on or after January 1, 2014);
- Amendments to IAS 36 “Impairment of Assets” - Recoverable Amount Disclosures for Non-Financial Assets (effective for annual periods beginning on or after January 1, 2014);
- Amendments to IAS 39 “Financial Instruments:” Recognition and Measurement - Novation of Derivatives and Continuation of Hedge Accounting (effective for annual periods beginning on or after January 1, 2014);
- IFRIC 21 “Levies“ (effective for annual periods beginning on or after January 1, 2014);
- Amendments to IAS 19 “Employee Benefits” – Defined Benefit Plans: Employee Contributions (effective for annual periods beginning on or after January 1, 2014);
- Amendments resulting from Annual Improvements 2010-2012 Cycle issued in December 2013 (IFRS 2, IFRS 3, IFRS 8, IFRS 13, IAS 16, IAS 24 and IAS 38) with a view to removing inconsistencies and clarifying wording (effective for annual periods beginning on or after July 1, 2014); and
- Amendments resulting from Annual Improvements 2011-2013 Cycle issued in December 2013 (IFRS 1, IFRS 3, IFRS 13 and IAS 40) with a view to removing inconsistencies and clarifying wording (effective for annual periods beginning on or after July 1, 2014).

2.4. Standards and Interpretations in Issue not yet in Effect

At the date of issuance of these financial statements the following standards, revisions and interpretations were in issue but not yet effective:

- IFRS 9 “Financial Instruments” and subsequent amendments, supplanting the requirements of IAS 39 “Financial Instruments: Recognition and Measurement“, with regard to classification and measurement of financial assets. This standard eliminates the categories existing under IAS 39 – assets held to maturity, assets available for sale and loans and receivables. IFRS 9 shall be effective for annual periods beginning on or after January 1, 2018, with early adoption permitted.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2014

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

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

2.4. Standards and Interpretations in Issue not yet in Effect (Continued)

In accordance with IFRS 9, financial assets shall be classified in one of the following two categories upon initial recognition: financial assets at amortized cost or financial assets at fair value. A financial asset shall be measured at amortized cost if the following two criteria are met: financial assets relate to the business model whose objective is to collect the contractual cash flows and the contractual terms provide the basis for collection at certain future dates of cash flows that are solely payments of principal and interest on the principal outstanding. All other financial assets shall be measured at fair value. Gains and losses on the fair value measurement of financial assets shall be recognized in the profit and loss statement, except for investments in equity instruments which are not traded, where IFRS 9 allows at initial recognition a subsequently irreversible choice to recognize changes in fair value within other gains and losses in the statement of comprehensive income. An amount recognized in such a manner within the statement of comprehensive income cannot subsequently be recognized in profit and loss.

- Amendments to IFRS 11 “Joint Arrangements – Accounting for Acquisitions of Interests in Joint Operations (effective for annual periods beginning on or after January 1, 2016);
- IFRS 14 “Regulatory Deferral Accounts” (effective for annual periods beginning on or after January 1, 2016);
- IFRS 15 “Revenue from Contracts with Customers”, defining the framework for revenue recognition. IFRS 15 supplants IAS 18 “Revenue”, IAS 11 “Construction Contracts”, IFRIC 13 “Customer Loyalty Programs”, IFRIC 15 “Agreements for the Construction of Real Estate” and IFRIC 18 “Transfers of Assets from Customers”. IFRS 15 shall be effective for annual periods beginning on or after January 1, 2017, with early adoption permitted.
- Amendments to IAS 16 “Property, Plant and Equipment” and IAS 38 “Intangible Assets” – Clarification of Acceptable Methods of Depreciation and Amortization (effective for annual periods beginning on or after January 1, 2016);
- Amendments to IAS 16 “Property, Plant and Equipment” and IAS 41 “Agriculture” – Agriculture: Bearer Plants (effective for annual periods beginning on or after January 1, 2016);
- IAS 27 “Separate Financial Statements” – Equity Method in Separate Financial Statements (effective for annual periods beginning on or after January 1, 2016); and
- Amendments to IFRS 10 “Consolidated Financial Statements” and IAS 28 “Investments in Associates and Joint Ventures” – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (effective for annual periods beginning on or after January 1, 2016).

2.5. Use of Estimates

The presentation of the financial statements requires the Company’s management to make best estimates and reasonable assumptions that influence the assets and liabilities amounts, the disclosure of contingent liabilities and receivables as of the date of preparation of the financial statements, as well as the income and expenses arising during the accounting period. These estimations and assumptions are based on historical experience and other information available as of the date of preparation of the financial statements.

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2014

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

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

2.5. Use of Estimates (Continued)

2.5.1. Depreciation Charge and Rates Applied

The useful lives of property, plant and equipment are based on the historical experience with similar assets and anticipated technological advancement and changes in economic and industrial factors. The adequacy of the remaining useful lives is analysed on an annual basis, or whenever there are indications of significant changes in the underlying assumptions. Management of the Company believes that the accounting estimates relating to the estimated useful lives of property, plant and equipment are significant accounting estimates. In addition, due to the significance of the non-current assets within the Company's total assets, the impact of any change in the aforesaid assumptions may be material to the Company's financial position as well as its financial performance. For instance, if the Company were to reduce the average useful life of non-current assets by 10%, this would have led to additional depreciation charge in FY 2014 of about RSD 10,422 thousand (2013: RSD 10,242 thousand).

For the aforesaid assessment, the Company hired an independent appraiser to assess the residual values of property, plant and equipment as at the reporting date. The appraised residual value was used for calculating depreciation charge as decrease in the cost of property, plant and equipment. In assessing the residual value, the appraiser used the following assumptions:

- At the end of its useful life, the hotel will have no technical, physical or economic value except for the value of the building itself;
- Depreciated replacement cost of "cold shell" was estimated taking into account the estimated useful life of the asset, discount rate and the price per square meter reduced by the estimated costs to sell.

2.5.2. Impairment Allowance of Receivables

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 accounts receivable 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 behaviour 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.

2.6. Fair Value

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

It is a policy of the Company to disclose the fair value information of those components of assets and liabilities for which published or quoted market prices are readily available, and of those for which the fair value may be materially different than their recorded 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 of this, fair value cannot readily or reliably be determined in the absence of an active market. The Company's management assesses its overall risk exposure, and in instances in which it estimates that the value of assets stated in its books may not 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.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2014

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

3.1. Foreign Exchange Translation

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

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

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

3.2. Financial Instruments

Classification

The Company classifies its financial instruments into the following categories: financial assets at fair value through profit and loss, loans and receivables, financial assets available for sale 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.

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 accounts receivable and other receivables.

Accounts receivable 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 after the assessment. Loans and receivables, as well as financial assets held to maturity, are measured at amortized cost using the effective interest method.

Cash and Cash Equivalents

For the purposes of cash flow statement, cash and cash equivalents include cash on hand, balances on accounts held with commercial banks and other highly liquid assets maturing within 3 months.

Held-to-Maturity Financial Assets

Held-to-maturity investments are classified as non-current assets unless they mature within less than 12 months from the balance sheet date, in which case they are classified as current assets.

Recognition of Financial Assets

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

Measurement of Financial Assets

Financial instruments are initially measured at market value which includes transaction costs for all types of financial assets and liabilities except for those measured at fair value through profit and loss. Financial assets at fair value through profit and loss are initially recognized at fair value with transaction costs charged to operating expenses within the income statement.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2014

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.2. Financial Instruments (Continued)

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.

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 a 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 accounts receivable 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 behaviour and the resulting future collections in cash. The actual amount of collected receivables may differ from the estimated collection amounts, which may have positive or negative effects on the financial performance of the Company.

Decisions on forming impairment allowances of accounts receivable via the impairment allowance account are made by the management.

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

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.

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

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

Account payable

Account payable and other operating liabilities are measured at their nominal value.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2014

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.3. Intangible Assets

Intangible assets are non-monetary assets (do not represent tangible physical assets) such as patents, licenses, trademarks, accounting software, investments in development of new products, processes and devices, copyrights, etc. Such assets are likely to be generating economic benefits in excess of related expenditures for periods longer than a year.

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

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

Amortization of intangible assets commences in the month following the one when an intangible asset is placed in use. Amortization is provided on the base comprised of cost net of residual value. If the residual value is immaterial, it is not taken into account upon calculating amortization, i.e. it is not netted of the amortization base. Intangible assets are amortized on a straight-line basis at the rates of 24% and 10% over the useful lives of 4 to 10 years.

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

3.4. Property, Plant and Equipment

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

Expenditure for property, plant and equipment 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, plant 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.

In accordance with the adopted accounting policy, at each balance sheet date, the Company's management analyses carrying amounts of tangible and intangible assets of the Company. If there is any indication that any such an asset has become impaired, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. If the estimated recoverable amount of the asset is below its carrying value, the carrying amount of the asset is reduced to its recoverable amount. The recoverable amount is based on the higher of net selling price and value in use. An impairment loss is recognized as the difference between the carrying value and the recoverable amount as an expense of the current period.

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

The depreciation of property, plant and equipment is computed on a straight-line basis by applying depreciation rates determined in such a manner that cost of property, plant and equipment items is depreciated in equal annual amounts in order to fully write off the cost of the assets over their estimated useful lives. The base for calculating depreciation charge comprises an asset's cost less its residual value. If the residual value is not material, it is not taken into account in depreciation charge calculation, i.e. it does not decrease the cost as the base for depreciation calculation. The Company hired an independent appraiser to assess the residual values of property, plant and equipment as at the reporting date based on the assumptions disclosed in Note 2.5.1. The Company believes that the residual value determined in such a manner corresponds to the residual value from the beginning of the period (given that there were no significant changes) and used it in calculation of depreciation charge. The effect of the change in residual value resulting in the understated depreciation charge in the current period as compared to the previous period amounted to RSD 14,930 thousand as was recorded in the period of the change occurrence within profit or loss in accordance with the requirements of IAS 8. Depreciation of assets activated during the year commences upon the asset placement in use.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2014

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.4. Property, Plant and Equipment (Continued)

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

<i>Asset description</i>	<i>Rate %</i>	<i>Useful life (years)</i>
Buildings	3	39
Computer equipment	24	4.2
Motor vehicles	15	6.6
Furniture and other equipment	15-24	4.2-6.6

3.5. Inventories

Inventories of raw materials and spare parts are stated at cost, while inventories of the Company's own work are recorded at the lower of the cost or net realizable value.

Cost of inventories comprises the purchase price as billed by suppliers increased by the transportation and other direct acquisition-related costs.

Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs necessary to make the sale.

3.6. Leases

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

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

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

3.7. 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 on Salaries, 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.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2014

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.7. Employee Benefits (Continued)

Long-Term Employee Benefits - Obligations for Retirement Benefits (Continued)

The Company formed no provisions in this respect as, in the assessment of the management, these are not material to the financial statements taken on the whole.

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.

The Company formed no provisions in this respect as, in the assessment of the management, these are not material to the financial statements taken on the whole.

3.8. Provisions

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

3.9. Equity

The Company's equity is comprised of the core capital – share capital held by the shareholders, reserves and retained earnings.

The Company's capital was formed by the monetary contributions of the founders. A founder cannot withdraw assets invested in the Company's share capital.

3.10. Income

Sales of Products and Services

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 invoiced net of approved discounts and value added tax.

Finance Income

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

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

3.11. Expenses

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

Operating Expenses

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

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2014

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.11. Expenses (Continued)

Finance Expenses

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

Other Expenses

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

3.12. Income Taxes

Current Income Tax

Current income tax is payable at the legally prescribed rate of 15% (2013: 15%) applied to the tax base determined within the tax balance and reported in the annual corporate income tax return. The taxable base stated in the income tax return 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 effective Corporate Income Tax Law 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, except for those giving rise to capital gains or 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 may be carried forward against income taxes to be paid in future periods for duration of no longer than ten ensuing years.

Deferred Income Tax

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 on all taxable temporary differences. Deferred tax assets are recognized for all deductible temporary differences, and the tax effects of income tax losses and credits are 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, 2014 deferred tax assets and liabilities were provided at the rate of 15% (December 31, 2013: 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 capital, and in that instance, the deferred taxes are also recognized under equity.

3.13. Earnings per Share and Segment Reporting

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

4. FINANCIAL RISK MANAGEMENT

In the course of its regular operations, the Company is exposed to varying extent to certain financial risks, as follows:

- Market risks,
- Liquidity risk,
- Credit risk.

Risk management within the Company is focused on minimizing the potential adverse effects on the financial position and operations of the Company in the circumstances of unpredictable financial markets.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2014

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

4. FINANCIAL RISK MANAGEMENT (Continued)

	December 31, 2014	December 31, 2013
Financial assets		
Accounts receivable	34,098	25,645
Short-term financial investments and loans	10,148	25
Other receivables	383	2,954
Cash and cash equivalents	203,797	291,759
	<u>248,426</u>	<u>320,383</u>
Financial liabilities		
Long-term borrowings	279,159	401,135
Finance lease liabilities and other long-term liabilities	517	1,604
Short-term financial liabilities	196,687	164,535
Accounts payable	21,488	16,109
Other liabilities	22,223	24,260
	<u>520,074</u>	<u>607,643</u>

4.1. Market Risk

(a) Foreign Currency Risk

The Company is mainly exposed to foreign currency risk upon operations in the country and abroad, resulting from transacting in different currencies, primarily EUR and USD. Foreign currency risk occurs in instances of mismatching of financial assets and liabilities denominated in foreign currencies and/or currency clause linked assets and liabilities. To the extent possible, the Company minimizes the currency risk by minimization of the open net foreign currency position.

The following table provides the details on the Company's currency risk exposures as of December 31, 2014 and 2013:

	December 31, 2014	December 31, 2013
	Assets	
EUR	60,917	141,989
USD	31,326	61,386
CHF	-	2
Total:	<u>92,243</u>	<u>203,377</u>
	Liabilities	
EUR	1,692	2,886
USD	486,996	573,107
Total:	<u>488,688</u>	<u>575,993</u>
Net foreign currency position	<u>(396,445)</u>	<u>(372,616)</u>

The Company is substantially sensitive to the movements in the EUR and USD exchange rates given the significant assets and liabilities in these two currencies. The following table provides details on the Company's sensitivity to the 10% increase and decrease in the dinar to the foreign currency exchange rate. The 10% sensitivity rate was used in internal reporting on the foreign currency risk and it represents management's best estimate of the 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 number from the table indicates the increase in the results of the current period in case RSD rises against the currency at issue. In the instance of 10% RSD decline against the currency at issue, the result of the period would be the exact opposite to the amount calculated in the previous instance.

	December 31, 2014		December 31, 2013	
	<u>+10%</u>	<u>-10%</u>	<u>+10%</u>	<u>-10%</u>
Profit/(loss)	39,645	(39,645)	37,262	(37,262)

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2014

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

4. FINANCIAL RISK MANAGEMENT (Continued)

4.1. Market Risk (Continued)

(b) Interest Rate Risk

The Company is exposed to various risks that via the effects of changes in market interest rates affect its financial position and cash flows. The Company's operations are exposed to the interest rate risk to the extent to which interest-bearing assets (including investments) and interest-bearing liabilities mature for collection/settlement at different times and in different amounts.

The following table provides details of the Company's interest rate risk exposure:

	<u>2014</u>	<u>2013</u>
Non-interest bearing instruments		
Financial assets	188,426	270,383
Financial liabilities	<u>(43,889)</u>	<u>(40,369)</u>
	<u>144,537</u>	<u>230,014</u>
Instruments at fixed interest rates		
Financial assets	60,000	50,000
Financial liabilities	<u>(1,692)</u>	<u>(2,886)</u>
	<u>58,308</u>	<u>47,114</u>
Instruments at variable interest rates		
Financial assets	-	-
Financial liabilities	<u>(474,493)</u>	<u>(564,388)</u>
	<u>(474,493)</u>	<u>(564,388)</u>

Given the fact that the Company is not in possession of significant interest-bearing assets, the Company's income and cash flows are largely independent of the changes in the market interest rates. The Company's interest rate risk is primarily a result of the liabilities for the long-term borrowing obtained from a related party. The loan was approved at a variable interest rate and exposes the Company to the cash flow interest rate risk. In 2014 the liabilities per the aforesaid loan had variable interest rates index-linked to LIBOR and stated in foreign currency (USD).

The sensitivity analysis presented in the following text has been established based on the Company's exposure to interest rate risk inherent in non-derivative instruments as of the balance sheet date. For liabilities with variable interest rate, the analysis has been prepared under the assumption that the outstanding balance of assets and liabilities as of the balance sheet date remained constant throughout the year. The increase or decrease in interest rates of 1 percentage point represents the fluctuation reasonably anticipated by the management. Had interest rate been 1 percentage point higher/lower and all the other variables remained unchanged, the Company would have incurred an operating loss / realized profit of RSD 4,745 thousand the year ended December 31, 2014 (December 31, 2013: RSD: 5,644 thousand). Such situation is attributed to the Company's exposure based on the variable interest rates applied to long-term borrowings and other long-term liabilities.

4.2. Liquidity Risk

Liquidity risk is the risk that the Company will not be able to finance its assets with adequate sources of funding in terms of maturities and rates and the risk of inability to sell an asset at a reasonable price in an adequate timeframe.

The Company manages liquidity risk in order to ensure that sources of financing are available for settlement of liabilities when these fall due. The Company assesses the liquidity risk on an ongoing basis by identifying and monitoring changes in the sources of financing required for the achievement of the Company's business goals in accordance with its business strategy.

The Company has access to various sources of financing. Funds are raised through:

- *long-term borrowings,*
- *share capital.*

The following table presents the maturities of the undiscounted cash flows of financial assets and liabilities per maturity outstanding as at December 31, 2014. The amounts presented are based on the undiscounted cash flows arising from financial assets and liabilities based on the earliest date upon which the Company will be able to collect such receivables/required to settle such payables.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2014

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

4. FINANCIAL RISK MANAGEMENT (Continued)

4.2. Liquidity Risk (Continued)

	<u>Within 3 Months</u>	<u>From 3 Months to 1 Year</u>	<u>From 1 to 5 Years</u>	<u>Over 5 Years</u>	<u>Total</u>
Cash and cash equivalents	204,641	-	-	-	204,641
Accounts receivable	34,098	-	-	-	34,098
Short-term financial investments	10,317	-	-	-	10,317
Other receivables	383	-	-	-	383
Total	<u>249,439</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>249,439</u>
Short-term financial liabilities	52,884	156,414	-	-	209,298
Accounts payable	21,488	-	-	-	21,488
Other liabilities	22,223	-	-	-	22,223
Long-term financial liabilities	-	-	286,596	-	286,596
Total	<u>96,595</u>	<u>156,414</u>	<u>286,596</u>	<u>-</u>	<u>539,605</u>
Liquidity gap at December 31, 2014	<u>152,844</u>	<u>(156,414)</u>	<u>(286,596)</u>	<u>-</u>	<u>(290,166)</u>

The following table presents the maturities of the undiscounted cash flows of financial assets and liabilities per maturity outstanding as at December 31, 2013. The amounts presented are based on the undiscounted cash flows arising from financial assets and liabilities based on the earliest date upon which the Company will be able to collect such receivables/required to settle such payables.

	<u>Within 3 Months</u>	<u>From 3 Months to 1 Year</u>	<u>From 1 to 5 Years</u>	<u>Over 5 Years</u>	<u>Total</u>
Cash and cash equivalents	292,603	-	-	-	292,603
Accounts receivable	29,247	-	-	-	29,247
Short-term financial investments	25	-	-	-	25
Total	<u>321,875</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>321,875</u>
Short-term financial liabilities	41,915	138,715	-	-	180,630
Accounts payable	16,109	-	-	-	16,109
Other liabilities	24,260	-	-	-	24,260
Long-term financial liabilities	-	-	419,062	-	419,062
Total	<u>82,284</u>	<u>138,715</u>	<u>419,061</u>	<u>-</u>	<u>640,061</u>
Liquidity gap at December 31, 2013	<u>239,591</u>	<u>(138,715)</u>	<u>(419,062)</u>	<u>-</u>	<u>(318,186)</u>

4.3. Credit Risk

Credit risk relates to the exposure inherent in the possibility that the contractual party 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 cash and cash equivalents, deposits placed with banks and financial institutions, investments in securities and receivables from legal entities and private individuals.

The Company manages credit risk by undertaking certain measures and activities on the Company level. Accounts receivable are due from a large number of customers, the major portion of which relates to the receivables due from the Hotel guests who pay for the services with credit cards.

As of December 31, 2014 the Company was in possession of cash and cash equivalents totaling RSD 203,797 thousand (December 31, 2013: RSD 291,759 thousand), which, in the assessment of the management, represents the maximum credit risk exposure per these financial assets.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2014

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

4. FINANCIAL RISK MANAGEMENT (Continued)

4.3. Credit Risk (Continued)

Accounts Receivable

The maximum credit risk exposure of the Company for receivables per geographic regions is provided in the table below:

	December 31, 2014	December 31, 2013
Domestic accounts receivable	33,811	21,665
Foreign accounts receivable		
- Euro zone	2,287	5,345
- Others	-	635
	<u>36,098</u>	<u>27,645</u>
Less: Allowance for impairment of receivables	<u>(2,000)</u>	<u>(2,000)</u>
Total	<u><u>34,098</u></u>	<u><u>25,645</u></u>

The most significant customers are presented in the following table:

	December 31, 2014	December 31, 2013
Embassy of the People's Republic of China, Belgrade	21,886	-
Lufthansa Cityline	2,585	4,369
Football Association of Serbia, Belgrade	2,017	149
Travco TA	1,915	-
Verdict film d.o.o., Belgrade	1,332	-
Film 87 d.o.o., Belgrade	-	5,608
Handball Association of Serbia, Belgrade	-	5,163
Jugoimport SDPR, Belgrade	167	1,165
Tourist Organization of Serbia, Belgrade	-	1,165
Hyatt Regency Sochi, Russia	-	976
RS Ministry of Defense , Belgrade	-	882
Embassy of Kuwait	-	701
Excelsior a.d., Belgrade	264	334
Other customers	<u>5,932</u>	<u>7,133</u>
	<u>36,098</u>	<u>27,645</u>
Less: Allowance for impairment of receivables	<u>(2,000)</u>	<u>(2,000)</u>
	<u><u>34,098</u></u>	<u><u>25,645</u></u>

Impairment Allowance of Receivables

The aging structure of receivables is provided below:

	Gross 2014	Impairment Allowance 2014	Gross 2013	Impairment Allowance 2013
Receivables not matured	25,119	-	13,681	-
From 0 to 30 days past-due	6,379	-	6,385	-
From 31 to 60 days past-due	2,083	-	1,873	-
From 61 to 90 days past-due	50	-	-	-
From 91 to 120 days past-due	-	-	74	-
From 121 to 360 days past-due	<u>2,467</u>	<u>(2,000)</u>	<u>5,632</u>	<u>(2,000)</u>
Total	<u><u>36,098</u></u>	<u><u>(2,000)</u></u>	<u><u>27,645</u></u>	<u><u>(2,000)</u></u>

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2014

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

4. FINANCIAL RISK MANAGEMENT (Continued)

4.3. Credit Risk (Continued)

Impairment Allowance of Receivables (Continued)

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

	December 31, 2014	December 31, 2013
Balance at January 1	2,000	229
Charge for the year	-	2,000
Write-off	-	(229)
Balance at December 31	2,000	2,000

Accounts Payable

The Company's accounts payable are stated as totaling RSD 20,734 thousand as of December 31, 2014 (December 31, 2013: RSD 15,421 thousand). Suppliers do not charge penalty against matured liabilities, whereas the Company duly settles accounts payable, as in accordance with financial risk management policies. The average days payable outstanding in the course of 2014 counted 23 days (2013: 14 days).

4.4. Capital Risk Management

The Company has elected the financial concept of capital and its preservation whereby the capital is defined based on the nominal monetary units.

The Company manages capital risk in order to ensure the continuity of its business operations for an indefinite period in the foreseeable future while maximizing return on equity to its owners (dividend) through optimization of the capital structure reduced capital-related expenses. In order to preserve i.e. adjust the capital structure, the Company may consider the following options: adjustment of dividend payments to the shareholders, return of capital to the shareholders, new share issues or sales of assets in order to reduce debt.

The Company monitors the capital structure according to the debt to equity ratio, which is computed as the ratio of net debt to the total equity of the Company.

The gearing ratios of the Company as of December 31, 2014 and 2013 were as follows:

	December 31, 2014	December 31, 2013
Debt*	476,363	567,274
Cash and cash equivalents	203,797	291,759
Net debt**	272,566	275,515
Total equity***	2,265,504	2,259,932
Debt to equity ratio****	12%	12%

* *Debt is related to borrowings, other long-term liabilities and short-term financial liabilities;*

** *Net debt is arrived at when total liabilities without equity are deducted by the amount of cash and cash equivalents;*

*** *Total equity is the amount of equity as presented in the balance sheet;*

**** *Debt to equity ratio is net debt relative to the total equity.*

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2014

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

4. FINANCIAL RISK MANAGEMENT (Continued)

4.5. 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 than their recorded 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 of this, fair value cannot readily or reliably be determined in the absence of an active market. The Company's management assesses its overall risk exposure, and in instances in which it estimates that the value of assets stated in its books may not have been realized, it recognizes a provision.

Fair value of financial assets stated at amortized cost is estimated by discounting cash flows using the interest rate at which the Company could obtain long-term borrowings, and which corresponds to the effective interest rate. The Company holds that the reported carrying amounts net of impairment allowance, as well as nominal value of account payable, approximate their fair values. Fair value of the borrowings is estimated by discounting contracted future cash flows using the current market interest rate available to the Company for similar financial instruments. Fair value determined in this manner does not depart significantly from the carrying amounts of borrowings recorded in the Company's books of account. In the opinion of the management, the reported carrying amounts are the most valid and useful reporting values under the present market conditions.

5. SALES OF GOODS

	Year Ended December 31,	
	2014	2013
Sales of drinks	75,989	86,964
Sales of cigarettes	5,338	4,551
	81,327	91,515

6. SALES OF PRODUCTS AND SERVICES

	Year Ended December 31,	
	2014	2013
Sales of:		
- rooms	662,846	811,345
- food	213,477	231,851
- telephone and fax	2,702	3,804
- fitness club	42,988	46,808
- Internet	134	3,362
Parking and transport services	15,754	19,668
Laundry revenues	20,352	11,949
Sales of flowers	1,874	2,933
Commercials and advertisements	3,398	2,071
Other income	4,849	4,567
	968,374	1,138,358

7. OTHER OPERATING INCOME

	Year Ended December 31,	
	2014	2013
Rental income from:		
- presentation hall	18,503	24,876
- business premises	4,044	6,837
- equipment	8,376	8,180
Other	10,978	7,431
	41,901	47,324

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2014

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

8. COST OF MATERIALS

	Year Ended December 31, 2014	2013
Food	78,857	83,738
Tools and fixtures	10,318	12,587
Cost of materials	30,847	31,813
Cost of materials used in regular maintenance	5,701	6,565
Water charge	5,668	5,332
	131,391	140,035

9. COST OF FUEL AND ENERGY

	Year Ended December 31, 2014	2013
Gas bills	24,334	23,369
Cost of fuel	39	245
Electricity bills	36,339	30,144
	60,712	53,758

10. STAFF COSTS

	Year Ended December 31, 2014	2013
Gross salaries and benefits	165,948	176,466
Payroll taxes and contributions charged to the employer	93,876	99,324
Considerations paid to seasonal and temporary employees - youth employment agencies	39,257	41,253
Considerations per service contracts	6,613	6,033
Business travel expenses and per diems	3,059	2,501
Employee commuting allowance	7,461	7,384
Author fees	-	1,869
Employee awards	5,867	2,825
Other staff costs	6,429	5,742
	328,510	343,397

11. COST OF PRODUCTION SERVICES

	Year Ended December 31, 2014	2013
Transportation services	5,192	6,476
Telecommunications and postage	2,842	3,275
Maintenance services	8,825	9,180
Software maintenance	9,770	9,080
Marketing and advertising	23,999	24,654
Public utility services	8,038	7,259
Other production services	2,129	1,708
	60,795	61,632

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2014

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

12. DEPRECIATION AND AMORTIZATION CHARGE

	Year Ended December 31,	
	2014	2013
Depreciation and amortization charge:		
- property, plant and equipment (Note 18)	149,464	168,196
- intangible assets (Note 19)	5,609	5,330
	155,073	173,526

13. PROVISIONS

Provisions stated in the amount of RSD 56,175 thousand entirely relate to the provision for the legal proceedings in progress before the judicial bodies of the Republic of Serbia for determining the right to the monetary compensation to the former owners for the land expropriated, where the buildings of the Hyatt Hotel, NIS and Company Rad were built (Note 37).

14. NON-MATERIAL COSTS

	Year Ended December 31,	
	2014	2013
Security services	10,428	11,116
Tourist agency fees	7,404	11,851
Consultant services	2,860	3,704
Lawyer fees	9,096	13,964
Entertainment	1,769	2,384
Insurance premiums	6,904	8,127
Commissions:		
- gold passport	18,482	15,815
- bank commissions	1,739	1,938
- payment/credit cards	10,246	12,653
Basic fees as per Management Agreement	32,848	38,334
Stimulating fees as per Management Agreement	41,262	56,337
Other non-material expenses	22,200	23,792
City development land fee	1,632	19,811
Booking center costs	7,242	6,771
	174,112	226,597

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

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2014

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

15. FINANCE INCOME AND EXPENSES

	Year Ended December 31, 2014	2013
Finance income		
Interest income	5,357	1,756
Foreign exchange gains		
- from other related parties	9,071	102,388
- from third parties	10,168	10,762
Total	24,596	114,906
Finance expenses		
Interest expenses		
- to other related parties	16,972	22,713
- to third parties	112	165
Withholding taxes on interest paid to a non-resident	1,885	2,527
Foreign exchange losses		
- to other related parties	97,459	79,193
- to third parties	4,443	9,551
	120,871	114,149

16. OTHER INCOME AND EXPENSES

	Year Ended December 31, 2014	2013
Other income		
Gains on the sale of equipment	1,620	374
Other income	11	6,884
Total	1,631	7,258
Other expenses		
Impairment allowance of accounts receivable	-	2,000
Losses on the sale and disposal of equipment	154	355
Other expenses	724	7
	878	2,362

17. INCOME TAXES

a) Components of Income Taxes

	Year Ended December 31, 2014	2013
Current income tax expense	10,462	34,344
Deferred income tax benefits	(2,798)	(10,113)
Total tax expense of the period	7,664	24,231

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2014

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

17. INCOME TAXES (Continued)

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

	2014	2013
Profit before taxes	13,236	266,850
Income tax at the statutory tax rate of 15%	1,985	40,028
Tax effects of expenses not recognized for tax purposes	13,486	421
Tax credits for capital expenditures	(5,152)	(6,803)
Other	143	698
Current income tax presented in the income statement	10,462	34,344
Effects of deferred taxes		
Deferred tax benefits	(2,798)	(10,113)
Total income tax presented in the income statement	7,664	24,231
<i>Effective tax rate</i>	<i>58%</i>	<i>9%</i>

Tax credits arising on capital expenditures made as of December 31, 2014 amounted to RSD 64,667 thousand.

Breakdown of Tax Credits

Year of Inception	Amount	Year of Expiry
2005	35,689	2015
2006	4,328	2016
2007	2,599	2017
2008	6,823	2018
2009	-	2019
2010	387	2020
2011	14,841	2021
Total	64,667	

The Company recognized tax credits in the amounts which the management believes can be utilized.

In accordance with the Corporate Income Tax Law, gains and losses realized/incurred in financial and non-operating transactions determined within the tax balance return, except for those resulting in the capital gains and losses determined pursuant to the aforementioned Law, may be used to reduce the taxable profit of the future periods for the duration of no longer than ten years.

c) Deferred Tax Assets/Liabilities

Deferred tax liabilities of RSD 115,079 thousand net is a result of the difference between the tax base of certain assets and liabilities and their reported amounts within the Company's balance sheet, as well as the tax credit for capital expenditures. Movements on deferred tax liabilities are presented in the table below:

	2014	2013
Deferred tax liabilities		
Balance at January 1	(136,374)	(146,488)
Difference between depreciation for accounting and tax purposes	5,060	10,812
Other	(2,262)	(698)
	(133,576)	(136,374)
Deferred tax assets		
Balance at January 1	18,497	18,497
Tax credits available for carryforward	18,497	18,497
Deferred tax liabilities, net	(115,079)	(117,877)

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2014

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

18. PROPERTY, PLANT AND EQUIPMENT

Movements on property, plant and equipment are provided in the table below:

	<u>Land</u>	<u>Buildings</u>	<u>Equipment</u>	<u>Investment in Progress and Advances Paid</u>	<u>Total</u>
Cost					
Balance, January 1, 2013	584,640	3,374,844	1,001,997	-	4,961,481
Additions	-	-	-	61,875	61,875
Disposals	-	-	(2,091)	-	(2,091)
Transfers	-	11,348	14,527	(25,875)	-
Balance, December 31, 2013	<u>584,640</u>	<u>3,386,192</u>	<u>1,014,433</u>	<u>36,000</u>	<u>5,021,265</u>
Balance, January 1, 2014	584,640	3,386,190	1,014,435	36,000	5,021,265
Additions	-	-	-	164,393	164,393
Disposals	-	-	(522,255)	-	(522,255)
Transfers	-	54,462	144,378	(198,840)	-
Balance, December 31, 2014	<u>584,640</u>	<u>3,440,652</u>	<u>636,558</u>	<u>1,553</u>	<u>4,663,403</u>
Accumulated Depreciation					
Balance, January 1, 2013	-	1,455,354	762,779	-	2,218,133
Charge for the year (Note 12)	-	102,424	65,772	-	168,196
Sales and disposal	-	-	(1,735)	-	(1,735)
Balance, December 31, 2013	<u>-</u>	<u>1,557,778</u>	<u>826,816</u>	<u>-</u>	<u>2,384,594</u>
Balance, January 1, 2014	-	1,557,778	826,816	-	2,384,594
Charge for the year (Note 12)	-	88,342	61,122	-	149,464
Sales and disposal	-	-	(522,100)	-	(522,100)
Balance, December 31, 2014	<u>-</u>	<u>1,646,120</u>	<u>365,838</u>	<u>-</u>	<u>2,011,958</u>
Net Book Value :					
- at December 31, 2014	<u>584,640</u>	<u>1,794,532</u>	<u>270,720</u>	<u>1,553</u>	<u>2,651,445</u>
- at December 31, 2013	<u>584,640</u>	<u>1,828,414</u>	<u>187,617</u>	<u>36,000</u>	<u>2,636,671</u>

As of December 31, 2014, the net book value of the Company's buildings assigned under mortgage instituted as collateral to securitize the repayment of the loan obtained from Markelia Enterprises Company Limited (Note 28) totaled RSD 1,794,532 thousand.

As of December 31, 2014, the net book value of assets acquired under finance lease amounted to RSD 2,827 thousand (2013: RSD 3,616 thousand). Equipment leased refers to a motor vehicle.

In 2014 the Company had a lower operating result as compared to 2013 mostly due to the decreased number of guest nights and reduced room rates caused by more intense competition and a deteriorating economic situation in the market.

Accordingly, as per the requirements of IAS 36 "Impairment of assets", The Company hired an independent appraiser to assess the recoverable amounts of property, plant and equipment as at the reporting date. The recoverable value was determined as the value in use calculated based on the expected future cash flows estimated using the projected cash flows according to the following assumptions:

- average room rate per day of EUR 124.03;
- normalized-basis room rate per day of EUR 139.88;
- usage of accommodation capacity of 41.33%;
- normalized-basis usage of accommodation capacity of 51%; and
- discount rate of 12%.

With regard to the assessment of the value in use of the Company's property, plant and equipment, the management believes that no reasonably expected changes in the above listed assumptions can lead to a situation where the carrying values of the assets would materially exceed their recoverable amounts. In accordance with the aforesaid assessment, as of December 31, 2014 it was determined that the Company's property, plant and equipment have not been impaired.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2014

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

19. INTANGIBLE ASSETS

Movements on property, plant and equipment are provided in the table below:

	Licenses, Software and Other Rights	Other Intangible Assets	Intangible Assets in Progress	Total
Cost				
Balance, January 1, 2013	34,829	31,186	-	66,015
Additions	-	-	6,799	6,799
Transfers	1,517	4,971	(6,488)	-
Balance, December 31, 2013	<u>36,346</u>	<u>36,157</u>	<u>311</u>	<u>72,814</u>
Balance, January 1, 2014	36,346	36,157	311	72,814
Additions	2,317	-	-	2,317
Derecognition	(15,965)	(6,674)	-	(22,639)
Transfers	311	-	(311)	-
Balance, December 31, 2014	<u>23,009</u>	<u>29,483</u>	<u>-</u>	<u>52,492</u>
Accumulated Amortization				
Balance at January 1, 2013	24,519	16,650	-	41,169
Charge for the year	2,439	2,891	-	5,330
Sales/disposals	-	-	-	-
Balance, December 31, 2013	<u>26,958</u>	<u>19,541</u>	<u>-</u>	<u>46,499</u>
Balance, January 1, 2014	26,958	19,541	-	46,499
Derecognition	(15,964)	(6,675)	-	(22,639)
Charge for the year	2,719	2,890	-	5,609
Balance, December 31, 2014	<u>13,713</u>	<u>15,756</u>	<u>-</u>	<u>29,469</u>
Net Book Value :				
- at December 31, 2014	<u>9,296</u>	<u>13,727</u>	<u>-</u>	<u>23,023</u>
- at December 31, 2013	<u>9,388</u>	<u>16,616</u>	<u>311</u>	<u>26,315</u>

20. INVENTORIES

	December 31, 2014	December 31, 2013
Materials, spare parts, tools and fixtures		
- spare parts	10,931	11,648
- miscellaneous materials	4,593	4,698
- food	3,853	4,845
- fuel	1,156	1,205
- office supplies	2,474	2,408
Goods:		
- drinks	5,205	6,406
- cigarettes	123	149
Advances paid to suppliers	1,868	2,349
	<u>30,203</u>	<u>33,708</u>

21. ACCOUNTS RECEIVABLE

	December 31, 2014	December 31, 2013
Domestic accounts receivable:		
- other related parties	264	334
- other entities	33,547	21,331
Foreign accounts receivable	2,287	5,980
	<u>36,098</u>	<u>27,645</u>
Less: Allowance for impairment of domestic accounts receivable	(2,000)	(2,000)
	<u>34,098</u>	<u>25,645</u>

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2014

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

22. OTHER RECEIVABLES

	December 31, 2014	December 31, 2013
Receivables from employees	699	649
Receivables for prepaid income taxes	21,171	-
Other receivables	305	2,838
	22,175	3,487

23. SHORT-TERM FINANCIAL INVESTMENTS

	December 31, 2014	December 31, 2013
Short-term RSD deposits (for a period of 6 months, at interest rate of 6.75% per annum)	10,000	-
Other investments	148	25
	10,148	25

24. CASH AND CASH EQUIVALENTS

	December 31, 2014	December 31, 2013
Current account in RSD	108,904	91,276
Foreign currency account	89,119	195,975
Cash on hand	5,740	4,474
Other cash funds	34	34
	203,797	291,759

25. PREPAYMENTS

	December 31, 2014	December 31, 2013
Prepaid insurance costs	3,479	3,998
Prepaid software maintenance costs	1,106	950
Uninvoiced income and other prepayments	6,561	7,010
	11,146	11,958

26. SHARE CAPITAL

The structure of the Company's share capital as of December 31, 2014 was as follows:

	Ordinary Share Count	Preferred Share Count	Total Share Count	December 31, 2014	Equity Interest %
Foreign shareholders					
North Haven Ltd., Hong Kong	6,968	750	7,718	2,553,809	94.50%
Domestic shareholders					
Energoprojekt	441	-	441	145,922	5.40%
Putnik	8	-	8	2,648	0.10%
	7,417	750	8,167	2,702,379	100.00%

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2014

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

26. SHARE CAPITAL (Continued)

On May 30, 2006, the Company enacted Decision on Homogenization of Shares in order to Replace the Existing Shares Due to the Change in the Face Value (the "Decision"). Pursuant to the aforesaid Decision, all the Company's shares have the same face value of EUR 3,778, which was equivalent to RSD 330,890 per share, i.e. RSD 2,702,379 thousand as at the Decision enactment date. The company registered the aforesaid changes with the Serbian Business Registers on October 19, 2006.

Ordinary Shares

The subscribed, approved and paid in share capital comprises 7,417 ordinary shares including the founding share issue of 6,000 ordinary shares and subsequent share issues of 1,417 ordinary shares for debt to equity conversion in accordance with the relevant Decision enacted by the Company's Shareholder on February 20, 2004.

Preferred Shares

Pursuant to the aforesaid Assembly Decision dated February 20, 2004, long-term liabilities to the shareholder NIS Jugopetrol were converted into capital. In order to settle the debt amount, the Company issued and transferred to NIS Jugopetrol 750 preferred shares with individual par value of USD 4,000 (equivalent to RSD 219 thousand as at the Decision enactment date).

The aforesaid preferred shares were subject to homogenization of shares in 2006, and on June 4, 2008 were purchased by the majority shareholder. Preferred shares do not carry voting rights but entail entitlement to the bankruptcy estate distribution and priority upon dividend payment.

27. LONG-TERM PROVISIONS

Long-term provisions stated as totaling RSD 58,451 thousand as of December 31, 2014 (December 31, 2013: RSD 2,276 thousand) entirely relate to the provision for litigations, and, for the major part of RSD 56,175 thousand, refer to the legal proceedings in progress before the judicial bodies of the Republic of Serbia for determining the right to the monetary compensation to the former owners for the land expropriated, where the buildings of the Hyatt Hotel, NIS and Company Rad were built (Note 37).

Movements on long-term provisions during 2014 and 2013 are presented in the table below:

	2014	2013
Balance, January 1	2,276	2,276
Charge for the year (Note 13)	56,175	-
Balance, December 31	58,451	2,276

28. LONG-TERM BORROWINGS

	December 31, 2014	December 31, 2013
Long-term borrowings		
Markelia Enterprises Company Limited (former Belven Associates, Bahama)	474,493	564,388
Less: Current portion of long-term borrowings (Note 30)	(195,334)	(163,253)
Balance at December 31	279,159	401,135

On June 22, 2009 the Transfer of Loan Agreement and Bill of Exchange was executed by Belven Associates, Markelia Enterprises Company Limited, Hotel Shareholding Company BMP and Leontina Enterprises Company Limited.

The aforesaid Agreement enabled transfer of all ownership rights and interests from the first Loan Agreement, second Loan Agreement, mortgage, bill of exchange and Subordinated Debt Agreement from Belven Associates to Markelia Ltd. The transfer was made so that the entity Belven could increase the share capital of Markelia Ltd.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2014

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

28. LONG-TERM BORROWINGS (Continued)

The third Amendment and Supplement to the Loan Agreement dated September 27, 2013, define the new loan repayment schedule whereby the principal shall be repaid in monthly instalments of USD 164 thousand up to June 30, 2017 with the monthly instalment increase by the amount of available cash funds as at or before the fifth day in each calendar month (starting from December 5, 2004) up to the repayment period expiration date. The interest rate applied equals 3-month LIBOR+3% annually. As collateral securing the timely and regular repayment of the loan principal, interest and any penalty interest, a pledge lien – mortgage was registered over a building in the ownership of the Company in favor of Belven (Note 14).

Maturities of the long-term borrowings as of December 31, 2014 are presented in the table below:

	December 31, 2014	December 31, 2013
Maturity		
- within a year	195,334	163,253
- from 1 to 5 years	279,159	401,135
Total	474,493	564,388

29. FINANCE LEASE LIABILITIES

Other long-term liabilities entirely relate to the finance lease liabilities, the breakdown of which is provided below:

	Sum of the Minimum Lease Payments		Present Value of the Minimum Lease Payments	
	December 31, 2014	December 31, 2013	December 31, 2014	December 31, 2013
Maturity:				
- within a year	1,405	1,391	1,353	1,282
- from 1 to 3 years	342	1,655	339	1,604
	1,747	3,046	1,692	2,886
Less future cost of financing – interest	(55)	(160)	-	-
Present value of the minimum lease payments	1,692	2,886	1,692	2,886
<i>Included in the financial statements as:</i>				
Current portion of finance lease liabilities (Note 30)			(1,353)	(1,282)
			339	1,604

30. SHORT-TERM FINANCIAL LIABILITIES

	December 31, 2014	December 31, 2013
Current portion of long-term borrowings (Note 28)	195,334	163,253
Current portion of finance lease liabilities (Note 29)	1,353	1,282
Balance at December 31	196,687	164,535

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2014

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

31. ADVANCES RECEIVED AND ACCOUNTS PAYABLE

	December 31, 2014	December 31, 2013
Advances received	5,027	2,948
Foreign account payable:		
- Management fees to Hyatt International EAME, current portion	10,238	8,786
- others	2,265	472
Domestic account payable	8,231	6,163
Balance at December 31	20,734	15,421

32. OTHER CURRENT LIABILITIES

	December 31, 2014	December 31, 2013
Liabilities to employees	2,088	65
Other accounts payable	754	688
Balance at December 31	2,842	753

33. TAX, CUSTOMS AND OTHER PUBLIC DUTIES PAYABLE

	December 31, 2014	December 31, 2013
Taxes payable on interest paid to non-residents	-	237
Sojourn taxes	-	16,039
Income tax liabilities	236	364
Balance at December 31	236	16,640

34. ACCRUED EXPENSES

	December 31, 2014	December 31, 2013
Accrued expenses	22,223	24,260
Deferred income	11,346	15,597
Balance at December 31	33,569	39,857

35. RELATED PARTY DISCLOSURES

In the normal course of business, the Company enters into transactions with its related parties (in addition to the majority and minority shareholders, related parties include member firms of the Lampska Hellenic Hotel Group). Relationships and transactions among the Company and its related parties are defined on a contractual basis and performed under market terms. As of December 31, 2014 and 2013 the balances of receivables and payables and related party transactions relate to interest expenses, foreign exchange gains and losses disclosed in Note 15, accounts receivable disclosed in Note 21, long-term borrowings disclosed in Note 28, as well as account payable and management fees payable to Hyatt International EAME disclosed in Note 31 and fees pursuant to the Management Agreement toward Hyatt International EAME disclosed in Note 14.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2014

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

36. 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 periods remain open to review by the tax and customs authorities with respect to tax liabilities for five years. This practically means that tax authorities could determine payment of outstanding liabilities in the period of five years from the origination of the liability.

37. CONTINGENT LIABILITIES

Provisions for Litigations

As of December 31, 2014 the Company was involved in several legal suits on various grounds. The aggregate amount claimed in the legal suits filed against the Company totaled RSD 191,048 thousand as of December 31, 2014, excluding any penalty interest. Based on the opinion of the attorneys and management's estimate, a provision of RSD 58,451 thousand was made for potential litigation losses.

The most significant lawsuits filed against the Company include the administrative proceedings for determining the right to the compensation of the former owners of the confiscated land on which the Hyatt Hotel and buildings of NIS a.d., Novi Sad ("NIS") and GP Rad, Belgrade ("Rad") were built and 3 labor lawsuits with former executives.

Administrative proceedings for the compensation to the former owners of the confiscated land on which the Hyatt Hotel, NIS and Rad buildings were built was finalized before the Commission for the proceedings and deciding on the restitution of the land of the Municipality New Belgrade (the "Commission"). The Commission's first-instance Resolution dated March 19, 2013 confirmed the Company's obligation to pay the compensation to the former owners for the commensurate portion of the land used of 2,111 m². As the second-instance authority, the RS Ministry of Finance rejected the Company's appeal to the aforesaid Resolution on September 9, 2013. On October 24, 2013 the Company filed a suit to the Administrative Court against the second-instance Resolution of the Ministry of Finance, which was rejected by the Administrative Court in its Ruling dated December 9, 2014. As the only remaining remedy, the Company appealed to the Constitutional Court of the Republic of Serbia on January 22, 2015. Potential financial implications of these proceedings may be significant. The company's management hired a certified court valuer who appraised the value of land subject to litigation as amounting to EUR 464,420. Accordingly, the Company made a provision for a loss contingent in the aforesaid administrative proceedings in the amount of RSD 56,175 thousand. As there is no agreement among the parties on the amount of the compensation, the compensation amount shall be determined by means of expert analysis in extra-judicial proceedings, under expropriation rules. In accordance with the provisions of the laws governing payment, the monetary compensation determined by the court is payable in equal quarterly instalments within 10 years, as from the expiry date of one-year period from the court ruling finality date.

Legal proceedings totaling RSD 130,986 thousand have been filed against the BMP by former employees (the "Plaintiffs") over payment of compensation on the basis of termination of employment and on non-competition clause. The Company has filed a counter suit against the plaintiffs claiming the amount EUR 617,156. The Company holds that employment of the Plaintiffs was terminated in accordance with the Labor Law, since the Plaintiffs refused to continue employment with the Company. In addition, in the management's opinion, the Plaintiffs are exempt from the prohibition to perform competitive activities in accordance with the executed Employment Contracts. Based on the report of the expert finance valuer, the Company filed counter suits against the Plaintiffs claiming damages incurred based on the Plaintiffs' unjustified receipt of funds from the Company. Given the early stage of the aforesaid labor lawsuits, and the fact that there are countersuits filed, management believes that no provisions need be formed for potential losses in respect of these lawsuits in 2014.

38. EVENTS AFTER THE REPORTING PERIOD

Subsequent to the reporting date there have been no events or developments in litigations described in Note 37 that would have an effect on or require additional disclosures in the accompanying financial statements.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2014

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

39. 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 RSD were as follows:

	December 31, 2014	In RSD December 31, 2013
USD	99.4641	83.1282
EUR	120.9583	114.6421
CHF	100.5472	93.5472

APPENDIX 1 and 2

INCOME STATEMENT
Year Ended December 31, 2014
(Thousands of EUR)

	<u>Note</u>	<u>2014</u>	<u>2013</u>
OPERATING INCOME			
Sales revenues			
- sales of goods	5	694	809
- sales of products and services	6	8,259	10,066
Other operating income	7	357	418
		<u>9,310</u>	<u>11,293</u>
OPERATING EXPENSES			
Cost of goods sold		(137)	(151)
Cost of materials	8	(1,121)	(1,238)
Cost of fuel and energy	9	(518)	(475)
Staff costs	10	(2,802)	(3,036)
Cost of production services	11	(519)	(545)
Depreciation/amortization charge	12	(1,323)	(1,534)
Provisions	13	(478)	-
Non-material costs	14	(1,484)	(2,004)
		<u>(8,382)</u>	<u>(8,983)</u>
PROFIT FROM OPERATIONS		<u>928</u>	<u>2,310</u>
Finance income	15	210	1,016
Finance expenses	15	(1,031)	(1,009)
Other income	16	13	64
Other expenses	16	(7)	(21)
PROFIT FROM CONTINUING OPERATIONS BEFORE TAXES		<u>113</u>	<u>2,360</u>
INCOME TAXES			
Current income tax expense	17	(89)	(304)
Deferred tax benefit	17	24	89
NET PROFIT		<u>48</u>	<u>2,145</u>
Net profit attributable to the owners of the Parent Company		<u>48</u>	<u>2,145</u>

Note:

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

Translation of Income Statement for the years ended December 31, 2014 and 2013 was performed using the following average exchange rates:

- 2014: 117.2478
- 2013: 113.0924

BALANCE SHEET
As at December 31, 2014
(Thousands of EUR)

	<u>Note</u>	<u>December 31,</u> <u>2014</u>	<u>December 31,</u> <u>2013</u>
ASSETS			
Non-current assets			
Intangible assets	19	190	230
Property, plant and equipment	18	21,920	22,999
		<u>22,110</u>	<u>23,229</u>
Current assets			
Inventories	20	250	294
Accounts receivable	21	282	224
Receivable from specific transaction		1	1
Other receivables	22	183	30
Short-term financial investments	23	84	-
Cash and cash equivalents	24	1,685	2,545
Prepayments	25	92	104
		<u>2,577</u>	<u>3,198</u>
Total assets		<u>24,687</u>	<u>26,427</u>
EQUITY AND LIABILITIES			
Equity and reserves			
Share capital	26	22,341	23,572
Reserves		2,990	3,155
Retained earnings		3,699	3,651
Translation reserves		(231)	(41)
Loss		(10,069)	(10,624)
		<u>18,730</u>	<u>19,713</u>
Long-term provisions and liabilities			
Long-term provisions	27	483	20
Long-term borrowings	28	2,308	3,499
Finance lease liabilities	29	3	14
Other long-term liabilities		1	-
		<u>2,795</u>	<u>3,533</u>
Current liabilities			
Short-term financial liabilities	30	1,626	1,435
Advances received	31	42	26
Accounts payable	31	171	135
Other current liabilities	32	23	7
Value added tax		69	58
Tax, customs and other public duties payable	33	2	145
Accrued expenses	34	278	347
		<u>2,211</u>	<u>2,153</u>
Deferred tax liabilities	17	951	1,028
Total equity and liabilities		<u>24,687</u>	<u>26,427</u>

Note:

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

Translation of Balance Sheet as at December 31, 2014 and 2013 was performed using the following closing rates:

- December 31, 2014: 120.9583

- December 31, 2013: 114.6421