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

Financial Statements
Year Ended December 31, 2016 and
Independent Auditors' Report

Translation of the Auditors' Report issued in the Serbian language

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Translation of the Auditors' Report issued in the Serbian language

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements (pages 2 to 40) of Beogradsko Mešovito Preduzeće a.d., Beograd (the "Company"), which comprise the balance sheet as at December 31, 2016, and the related income statement, statement of other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of the significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Beogradsko Mešovito Preduzeće a.d., Beograd as at December 31, 2016, 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 35 to the financial statements, disclosing that the aggregate amount claimed in legal suits filed against the Company totaled RSD 201,267 thousand as of December 31, 2016, excluding any penalty interest that could be assigned upon completion of the proceedings. At the reporting date the Company formed provisions for contingent losses that may arise from the aforesaid legal suits in the amount of RSD 64,832 thousand. The Company's management holds that the outcome of all the ongoing legal suits cannot be anticipated with certainty given the early stage of some of those suits and that the Company will therefore not be exposed to materially significant potential losses in this respect in excess of the provisions presented within the accompanying financial statements. Our opinion is not qualified in respect of this matter.

Report on Other Requirements

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

Belgrade, May 29, 2017

Žarko Mijović
Certified Auditor

INCOME STATEMENT
Year Ended December 31, 2016
(Thousands of RSD)

	Note	2016	2015 *Restated*
Operating income			
Sales of goods in domestic market	5	65,642	67,728
Sales of products and services to other related parties in domestic market	5	2,407	2,826
Sales of products and services in domestic market	5	1,081,785	1,016,292
Other operating income	6	48,701	38,632
		1,198,535	1,125,478
Operating expenses			
Cost of commercial goods sold		(13,093)	(12,914)
Cost of materials	7	(152,953)	(131,671)
Cost of fuel and energy	8	(61,341)	(67,364)
Staff costs	9	(357,634)	(329,718)
Cost of production services	10	(82,729)	(71,721)
Depreciation/amortization charge	11	(158,060)	(159,330)
Long-term provisions	26	(6,381)	-
Non-material costs	12	(172,407)	(178,300)
		(1,004,598)	(951,018)
Profit from operations		193,937	174,460
Finance income			
Finance income from other related parties	13	14,636	35,670
Interest income (from third parties)	13	2,463	4,393
Foreign exchange gains and positive currency clause effects (third parties)	13	859	12,286
		17,958	52,349
Finance expenses			
Finance expenses to other related parties	14	(41,615)	(109,453)
Other finance expenses	14	(1,233)	(1,320)
Interest expenses (to third parties)	14	(3)	(53)
Foreign exchange losses and negative currency clause effects (to third parties)	14	(447)	(2,802)
		(43,298)	(113,628)
Loss from financing activities		(25,340)	(61,279)
Other income	15	4,241	686
Other expenses		(23)	(333)
Profit from continuing operations before taxes		172,815	113,534
Current income tax expense	16a	(21,532)	(15,834)
Deferred tax benefits	16a	4,665	5,108
NET PROFIT FOR THE YEAR		155,948	102,808

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

STATEMENT OF OTHER COMPREHENSIVE INCOME
Year Ended December 31, 2016
(Thousands of RSD)

	2016	2015
Net operating result		
Net profit for the year	155,948	102,808
a) Items that will not subsequently be reclassified to the income statement		
Increase/(decreases) in revaluation reserves	-	-
Actuarial gains/(losses) per defined benefit plans	-	-
Gains/(losses) on investments in equity instruments	-	-
Gains/(losses) from the share in the other comprehensive income of associates	-	-
	-	-
b) Items that may subsequently be reclassified to the income statement		
Foreign exchange gains/(losses) on translation of foreign operations	-	-
Gains/(losses) on hedging instruments designated in hedges of the net assets of foreign operations	-	-
Gains/(losses) on hedging instruments designated in hedges of the cash flows	-	-
Gains/(losses) on securities available for sale	-	-
	-	-
Other positive/(negative) comprehensive income, gross	-	-
Taxes payable on other comprehensive income	-	-
Other positive/(negative) comprehensive income, net	-	-
Total positive comprehensive income for the year, net	155,948	102,808

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

BALANCE SHEET
As of December 31, 2016
(Thousands of RSD)

	Note	December 31, 2016	December 31, 2015
ASSETS			
Non-current assets		2,484,288	2,550,873
Intangible assets		20,659	22,450
Concessions, patents, licenses, trademarks, software and other rights	17	8,466	10,581
Other intangible assets	17	12,193	11,869
Property, plant and equipment		2,463,629	2,528,423
Land	18	584,640	584,640
Buildings	18	1,621,284	1,709,733
Plant and equipment	18	250,088	232,780
Other property, plant and equipment	18	7,617	1,270
Current assets		565,975	422,594
Inventories		37,806	38,609
Materials, spare parts, small tools and fixtures	19	27,769	28,260
Goods	19	6,829	5,860
Advances paid for inventories and services	19	3,208	4,489
Trade receivables		22,219	21,311
Domestic – other related parties	20	311	246
Domestic	20	20,274	18,861
Foreign	20	1,634	2,204
Receivables from specific operations		2	35
Other receivables	21	2,390	23,629
Short-term financial investments			
Other short-term financial investments	22	10,171	89
Cash and cash equivalents	23	487,383	324,486
Prepayments	24	6,004	14,435
Total assets		3,050,263	2,973,467

(Continued)

BALANCE SHEET (Continued)
As of December 31, 2016
(Thousands of RSD)

	Note	December 31, 2016	December 31, 2015
EQUITY AND LIABILITIES			
Equity		2,524,260	2,368,312
Share capital	25	2,702,379	2,702,379
Reserves		361,669	361,669
Current year's retained earnings		155,948	419,406
Prior years' retained earnings		522,214	102,808
Prior years' accumulated losses		(1,217,950)	(1,217,950)
Non-current provisions and liabilities		65,008	74,511
Provisions for litigations	26	64,832	58,451
Long-term borrowings, foreign	27	-	15,882
Other long-term liabilities	27	176	178
Deferred tax liabilities	16v	105,306	109,971
Current liabilities			
Short-term financial liabilities		280,529	328,051
Other short-term financial liabilities	28	280,529	328,051
Advances, deposits and retainers received	29	8,118	25,091
Trade payables		15,687	13,491
Foreign – other related parties	29	7,074	7,080
Domestic	29	7,723	5,815
Foreign	29	890	596
Other current liabilities	30	4,267	6,502
Value added tax payable	31	8,622	5,887
Other taxes, contributions and duties payable		914	872
Accruals	32	37,552	40,779
Total equity and liabilities		3,050,263	2,973,467

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

STATEMENT OF CHANGES IN EQUITY
Year Ended December 31, 2016
(Thousands of RSD)

	Equity Components				
	Issued (Share) Capital	**Reserves**	**Accumulated Losses**	**Retained Earnings**	**Total Equity**
Opening balance at January 1, 2015					
a) debit balance	-	-	1,217,950	-	
b) credit balance	2,702,379	361,669	-	419,406	2,265,504
Movements in the previous year - 2015					
a) debit turnover	-	-	-	-	
b) credit turnover	-	-	-	102,808	102,808
Closing balance at December 31, 2015					
a) debit balance	-	-	1,217,950	-	
b) credit balance	2,702,379	361,669	-	522,214	2,368,312
Movements in the current year - 2016					
a) debit turnover	-	-	-	-	
b) credit turnover	-	-	-	155,948	155,948
Closing balance at December 31, 2016					
a) debit balance	-	-	1,217,950	-	
b) credit balance	2,702,379	361,669	-	678,162	2,524,260

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

STATEMENT OF CASH FLOWS
Year Ended December 31, 2016
(Thousands of RSD)

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash inflows from operating activities		
Cash receipts from customers	1,217,334	1,266,611
Interest received from operating activities	2,463	4,393
Other cash receipts from operating activities	48,839	45,406
	1,268,636	**1,316,410**
Cash outflows from operating activities		
Cash paid to suppliers	(484,967)	(515,574)
Cash paid to and on behalf of employees	(356,344)	(329,294)
Interest paid	(13,672)	(6,910)
Income taxes paid	-	(17,172)
Other public duties paid	(89,753)	(98,245)
	(944,736)	**(967,195)**
Net cash generated by operating activities	**323,900**	**349,215**
CASH FLOWS FROM INVESTING ACTIVITIES		
Cash inflows from investing activities		
Sales of intangible assets, property, plant and equipment	4,714	-
	4,714	**-**
Cash outflows from investing activities		
Purchases of intangible assets, property, plant and equipment	(93,063)	(36,018)
Other financial investments, net outflows	(10,065)	(10,058)
	(103,128)	**(46,076)**
Net cash used in investing activities	**(98,414)**	**(46,076)**
CASH FLOWS FROM FINANCING ACTIVITIES		
Cash inflows from financing activities		
Other long-term liabilities, net inflows	2	178
	2	**178**
Cash outflows from financing activities		
Long-term borrowings, net outflows	(63,064)	(181,303)
Finance lease liabilities	(340)	(1,351)
	(63,404)	**(182,654)**
Net cash used in financing activities	**(63,402)**	**(182,476)**
Net increase in cash and cash equivalents	**162,084**	**120,663**
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	324,486	203,797
Foreign exchange gains on translation of cash	835	32
Foreign exchange losses on translation of cash	(22)	(6)
CASH AND CASH EQUIVALENTS, END OF YEAR	**487,383**	**324,486**

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

1. FOUNDATION AND ACTIVITY

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

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

The Company was incorporated for an indefinite period and organized as a private shareholding company. The Company's shares are registered with the Central Securities Depository and Clearing House, with restrictions imposed on trade. The Company's current shareholders are Luella Enterprises Company Limited, Cyprus (holding a 94.5% equity interest therein), Energoprojekt Holding ad Beograd (holding a 5.4% equity interest) and Putnik ad Beograd (holding a 0.1% equity interest therein). The owner of the majority shareholder is Etarieia Ellinikon Xenodoheion Lampsa A.E. Athens, Greece.

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 Popovica Street.

The Company's tax identification number (fiscal code) is 100000805, and its corporate ID number is 07456263. As of December 31, 2016 the Company had 193 employees (December 31, 2015: 186 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) and other effective bylaws and regulations. As a medium-sized legal entity, the Company has elected to apply the International Financial Reporting Standards ("IFRS"), which as per the aforementioned Law comprise the following: the Framework for the Preparation and Presentation of Financial Statements (the "Framework"), International Accounting Standards ("IAS"), International Financial Reporting Standards ("IFRS"), as well as the related interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC") and 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 IFRIC. The aforesaid translations adopted by the Decision on Adoption of the Translations do not include the bases for closure, illustrating examples, guidelines and comments, contrary opinions, elaborated examples or other additional explanatory materials that can be adopted as associated with the standards and interpretations unless it is expressly stated that such materials form an integral part of the standards and interpretations. Based on this Decision on Adoption of the Translations, the Conceptual Framework, IAS, IFRS, IFRIC and related interpretations that have been translated shall be applied to the financial statements prepared as of December 31, 2014. 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.

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)

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 interpretations.

In accordance with the aforedescribed, and given the potentially material effects that the departures of accounting regulations of the Republic of Serbia from IFRS and IAS may have on the fairness of 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.

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 issued in the current and previous periods 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), RSD being the official reporting currency in the Republic of Serbia.

2.2. Standards and Interpretations Issued that Came into Effect 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);

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

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

- 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);

- 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);

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

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

- 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);
- 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 Issued in the Current Period 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 by 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);

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

2.3. Standards and Interpretations Issued in the Current Period but not yet Translated and Adopted (Continued)

- 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).

- 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);

- 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);

- Amendments to IFRS 10, IFRS 12 and IAS 28 "Investment Entities: Applying the Consolidation Exception". These amendments clarify that the exemption from preparing consolidated financial statements is available to a parent entity that is a subsidiary of an investment entity, even if the investment entity measures all its subsidiaries at fair value in accordance with IFRS 10. Consequential amendments have also been made to IAS 28 to clarify that the exemption from applying the equity method is also applicable to an investor in an associate or joint venture if that investor is a subsidiary of an investment entity that measures all its subsidiaries at fair value. (These amendments shall be applied retrospectively for annual periods beginning on or after January 2016 with early adoption permitted);

- Amendments to various standards "Improvements to IFRSs (cycle 2012-2014)" resulting from the annual improvement project of IFRS (IFRS 5, IFRS 7, IAS 19 and IAS 34) primarily with a view to removing inconsistencies and clarifying wording - adopted by the EU on 15 December 2015 (amendments are to be applied for annual periods beginning on or after January 1, 2016).

2.4. Standards and Interpretations in Issue not yet in Effect

At the date of issuance of these financial statements the following standards, their amendments, revisions and interpretations were in issue but not yet effective (with early adoption supported) for the year ended December 31, 2016:

- 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.

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.

- 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 16 “Leases” provides a comprehensive model for identification of lease arrangements and their treatment in the financial statements of both lessors and lessees. As from its effective date, January 1, 2019, this standard shall supplant the following lease standards and interpretations: IAS 17 “Leases”, IFRIC 4 “Determining whether an Arrangement Contains a Lease,” SIC 15 “Operating Leases – Incentives” and SIC 27 “Evaluating the Substance of Transactions Involving the Legal Form of a Lease.“

- Amendments to IFRS 2 “Share-Based Payment” - Classification and Measurement of Share-Based Payment Transactions, effective for annual periods beginning on or after January 1, 2018, with early adoption permitted.

- 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 ought to have been effective for annual periods beginning on or after January 1, 2016; however, in December 2015 IASB deferred the effective date indefinitely, with early adoption permitted.

- Amendments to IAS 7 “Statement of Cash Flows” - Disclosure Initiative require and entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. Amendments to IAS 7 shall be effective for annual periods beginning on or after January 1, 2017, with early adoption permitted.

- Amendments to IAS 12 “Income Taxes” - Recognition of Deferred Tax Assets for Unrealized Losses, shall be applied retrospectively for annual periods beginning on or after January 1, 2017, with early adoption permitted.

2.5. Going Concern

The Company's financial statements as of and for the year ended December 31, 2016 have been prepared on a going concern basis, which entails that the Company will continue to operate for an indefinite time in the foreseeable future.

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

2.6. Comparative Information

Reclassification of comparative data as of and for the year ended December 31, 2015 were made in accordance with the requirements of IAS 8 – "Accounting Policies, Changes in Accounting Estimates and Errors." Those refer to the reclassifications of the sales of products and services in domestic market to the sales of products and services to the other related parties, domestic in the amount of RSD 2,826 thousand. Sales of products and services in domestic market for the year ended December 31, 2015 before and after reclassification were presented in the respective amounts of RSD 1,019,118 thousand and RSD 1,016,292 thousand, while sales of products and services to other related parties, domestic for the year ended December 31, 2015 were presented before and after reclassification in the amount of RSD 0 and RSD 2,826 thousand, respectively.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

3.1. Income

Sales of Products and Services

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

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

Finance Income

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

Other Income

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

3.2. Expenses

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

Operating Expenses

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

Finance Expenses

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

Other Expenses

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.3. Foreign Exchange Translation

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

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

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

3.4. Employee Benefits

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

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

Long-Term Employee Benefits - Obligations for Retirement Benefits

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

The Company formed no provisions in this respect as, in the assessment of the management, these were not material to the financial statements taken on the whole as of December 31, 2016.

Short-Term Compensated Absences

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

3.5. Income Taxes

Current Income Tax

Current income tax is payable at the legally prescribed rate of 15% (2015: 15%) on the tax base determined within the tax statement and reported in the annual corporate income tax return, which includes the profit before taxation shown in the statutory statement of income, as adjusted for differences that are specifically defined under statutory tax rules of the Republic of Serbia, less any prescribed tax credits.

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.5. Income Taxes (Continued)

Deferred Income Taxes

Deferred income taxes are provided using the balance sheet liability method, for temporary differences arising between the tax bases of assets and liabilities and their carrying values in the financial statements. Deferred tax liabilities are recognized for all taxable temporary differences. Deferred tax assets are recognized for all deductible temporary differences and tax credits and losses available for carryforward, to the extent that it is probable that taxable profit will be available, against which the deductible temporary differences and the tax loss/credits of the carryforwards can be utilized. Deferred tax assets and liabilities are determined at the tax rate expected to be applied in the period of the relevant asset realization/liability settlement. As at December 31, 2016, deferred tax assets and liabilities were provided at the rate of 15% (December 31, 2015: 15%).

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

3.6. Intangible Assets

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

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

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

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

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

3.7. Property and Equipment

Items of property and equipment are initially recognized at cost or purchase price. Cost includes any costs directly attributable to the acquired assets.

Items of property and equipment are subsequently carried at cost less allowance for accumulated depreciation and impairment losses, if any.

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

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

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.7. Property and Equipment (Continued)

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

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

3.8. Impairment of Assets

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

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

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

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

As of December 31, 2016, in the assessment of the management, there were no indications that the Company's property, plant and equipment had suffered impairment.

3.9. Inventories

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

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

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

3.10. Leases

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.10. Leases (Continued)

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

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

3.11. Financial Instruments

Financial Assets

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

Cash and Cash Equivalents

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

Loans and Receivables

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

Receivables comprise domestic and foreign trade receivables and other receivables.

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

Financial Assets Held to Maturity

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

Recognition of Financial Assets

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.11. Financial Instruments (Continued)

Measurement of Financial Assets

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

Derecognition of Financial Assets

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

Amortized Cost Measurement

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

Fair Value Measurement

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

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

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

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

Impairment of Financial Assets

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

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.11. Financial Instruments (Continued)

Financial Liabilities

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

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

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

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

Trade Payables

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

3.12. Provisions

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

3.13. Earnings per Share and Segment Reporting

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

4. SUMMARY OF KEY ACCOUNTING ESTIMATES

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, as well as the disclosure of contingent liabilities and receivables as of the date of preparation of the financial statements, and the income and expenses arising during the accounting period. These estimations and assumptions are based on information available as of the date of preparation of the financial statements. Actual results may vary from these estimates.

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

4. SUMMARY OF KEY ACCOUNTING ESTIMATES (Continued)

4.1. Depreciation and Amortization Charge and Rates Applied

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

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

For the aforesaid assessment, the Company hired an independent appraiser to assess the residual values and the remaining useful lives of property, plant and equipment as of December 31, 2016. According to the appraisal report, the estimated useful life of the Hotel was 33.33 years while the appraised residual value amounted to EUR 4,800,000. 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.

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 2016 of RSD 16,878 thousand (2015: by RSD 17,703 thousand). If the Company were to reduce the residual value of its non-current assets by 10%, this would have resulted in additional depreciation charge in FY 2016 of RSD 1,488 thousand.

4.2. Impairment Allowance of Receivables

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

4.3. Provisions for Litigations

Generally, provisions are highly judgmental. The Company estimates the likelihood of unfavorable events taking place as a result of past events and assesses the amount necessary to settle such liability. Although the Company acts prudently in making such estimates, given the great extent of uncertainty, in certain cases actual results may depart from these estimations. According to the management's estimates, which are to a large extent based on the estimates of the lawyers, appraisers and court valuers as well as on other publicly available information, no additional provisions in this respect are necessary on top of the provisions for costs of the proceedings already disclosed in these financial statements (Note 26).

4.4. Fair Value

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

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

4. SUMMARY OF KEY ACCOUNTING ESTIMATES (Continued)

4.4. Fair Value (Continued)

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

5. SALES OF GOODS

	Year Ended December 31, 2016	2015 Restated
Sales of goods		
Sales of goods in domestic market:		
- sales of drinks	61,121	63,743
- sales of cigarettes	4,521	3,985
	65,642	67,728
Sales of products and services		
- to other related parties, domestic (Note 33)	2,407	2,826
- in domestic market	1,081,785	1,016,292
	1,084,192	1,019,118

Sales of products and services:

	Year Ended December 31, 2016	2015
Sales of:		
- rooms	712,937	704,980
- food	278,831	232,044
- telephone and fax	2,249	2,525
- fitness club	46,589	42,515
- Internet	942	1,146
Parking and transport services	21,771	19,964
Laundry revenues	13,835	9,807
Sales of flowers	-	805
Commercials and advertisements	289	185
Other income	6,749	5,147
	1,084,192	1,019,118

6. OTHER OPERATING INCOME

	Year Ended December 31, 2016	2015
Rental income from:		
- presentation hall	21,902	19,691
- business premises	6,310	4,032
- equipment	6,503	3,170
- stores	2,346	1,591
- other	10,386	10,148
Other operating income	1,254	-
	48,701	38,632

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2016
All amounts expressed in thousands of RSD, unless otherwise stated.

7. COST OF MATERIALS

	Year Ended December 31, 2016	2015
Cost of food	97,976	84,124
Tools and fixtures	10,546	8,919
Cost of materials	32,890	26,867
Cost of materials used in regular maintenance	5,960	5,215
Water charge	5,581	6,546
	152,953	131,671

8. COST OF FUEL AND ENERGY

	Year Ended December 31, 2016	2015
Cost of fuel	13	100
Gas bills	19,490	27,280
Electricity bills	41,838	39,984
	61,341	67,364

9. STAFF COSTS

	Year Ended December 31, 2016	2015
Gross salaries and benefits	233,351	215,245
Payroll taxes and contributions charged to the employer	39,352	31,957
Considerations paid per service contracts and author fees	9,428	8,319
Considerations paid to seasonal and temporary employees - youth employment agencies	48,047	41,085
Remunerations to the members of the Company's governing and supervision bodies	11,076	10,089
Other staff costs	16,380	23,023
	357,634	329,718

10. COST OF PRODUCTION SERVICES

	Year Ended December 31, 2016	2015
Transportation services	2,422	5,601
Telecommunications and postage	5,064	2,107
Maintenance services	11,848	10,984
Software maintenance	18,929	13,758
Marketing and advertising	29,797	27,585
Public utility services	8,122	8,503
Other production services	6,547	3,183
	82,729	71,721

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2016
All amounts expressed in thousands of RSD, unless otherwise stated.

11. DEPRECIATION AND AMORTIZATION CHARGE

	Year Ended December 31, 2016	2015
Depreciation and amortization charge:		
- intangible assets (Note 17)	5,724	5,550
- property, plant and equipment (Note 18)	152,336	153,780
	158,060	159,330

12. NON-MATERIAL COSTS

	Year Ended December 31, 2016	2015
Security services	10,220	10,834
Tourist agency fees	11,855	11,106
Consultant services	857	2,839
Lawyer fees	7,584	7,423
Entertainment	3,200	2,538
Insurance premiums	4,788	6,028
Commissions:		
- gold passport	10,268	17,868
- bank commissions	2,837	2,660
- payment/credit cards	9,604	11,013
Basic fees as per Management Agreement	35,924	33,775
Stimulating fees as per Management Agreement	43,932	40,940
Other non-material expenses	23,091	23,227
Booking center costs	9,247	8,049
	172,407	178,300

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

13. FINANCE INCOME

	Year Ended December 31, 2016	2015
Foreign exchange gains – other related parties (Note 33)	14,636	35,670
Interest income (from third parties)	2,463	4,393
Foreign exchange gains and positive currency clause effects (from third parties)	859	12,286
	17,958	52,349

14. FINANCE EXPENSES

	Year Ended December 31, 2016	2015
Finance expenses to other related parties:		
- interest expenses (Note 33)	11,081	11,886
- foreign exchange losses (Note 33)	30,534	97,567
	41,615	109,453
Other finance expenses – withholding taxes on interest paid to a non-resident	1,233	1,320
Interest expenses (to third parties)	3	53
Foreign exchange losses and negative currency clause effects (to third parties)	447	2,802
	43,298	113,628

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2016
All amounts expressed in thousands of RSD, unless otherwise stated.

15. OTHER INCOME

	Year Ended December 31, 2016	2015
Surpluses	11	11
Gains on the sale of equipment	1,816	-
Recovery of receivables previously written off	-	675
Write-off of liabilities	2,000	-
Other income	414	-
	4,241	686

16. INCOME TAXES

a) Components of Income Taxes

	Year Ended December 31, 2016	2015
Current income tax expenses	(21,532)	(15,834)
Deferred income tax benefits	4,665	5,108
	16,867	10,726

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

	2016	2015
Profit before taxes	172,815	113,534
Income tax at the statutory tax rate of 15%	25,922	17,030
Tax effects of expenses not recognized for tax purposes	1,265	260
Tax credits for capital expenditures	(10,605)	(7,799)
Other	285	1,235
	16,867	10,726

c) Deferred Tax Assets/Liabilities

Deferred tax liabilities of RSD 105,306 thousand, net as of December 31, 2016 (December 31, 2015: RSD 109,971 thousand) relate to taxable temporary differences resulting from application of different amounts of property, equipment and intangible assets used for tax purposes and their reported amounts within the Company's balance sheet, as well as the tax credit for capital expenditures.

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

	2016	2015
Deferred tax liabilities		
Balance at January 1	(128,468)	(133,576)
Recognized within the income statement (profit or loss)		
- temporary differences between depreciation/amortization for accounting and tax purposes	4,789	5,108
Balance at December 31	(123,679)	(128,468)
Deferred tax assets		
Balance at January 1	18,497	18,497
Recognized within the income statement (profit or loss)		
- expired tax credit carryforward (per capital expenditures)	(124)	-
Balance at December 31	18,373	18,497
Deferred tax liabilities, net	(105,306)	(109,971)

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17. INTANGIBLE ASSETS

	Concessions, Patents, Licenses and Other Rights	Other Intangible Assets	Total
Cost			
Balance, January 1, 2015	23,009	29,483	52,492
Additions	4,417	560	4,977
Balance, December 31, 2015	27,426	30,043	57,469
Balance, January 1, 2016	27,426	30,043	57,469
Additions	1,496	2,437	3,933
Balance, December 31, 2016	28,922	32,480	61,402
Accumulated Amortization			
Balance, January 1, 2015	13,713	15,756	29,469
Charge for the year (Note 11)	3,132	2,418	5,550
Balance, December 31, 2015	16,845	18,174	35,019
Balance, January 1, 2016	16,845	18,174	35,019
Charge for the year (Note 11)	3,611	2,113	5,724
Balance, December 31, 2016	20,456	20,287	40,743
Net Book Value :			
- at December 31, 2016	8,466	12,193	20,659
- at December 31, 2015	10,581	11,869	22,450

18. PROPERTY AND EQUIPMENT

	Land	Buildings	Equipment	Investment in Progress	Total
Cost					
Balance, January 1, 2015	584,640	3,440,652	636,558	1,553	4,663,403
Additions	-	3,568	25,920	1,270	30,758
Transfers	-	-	1,553	(1,553)	-
Balance, December 31, 2015	584,640	3,444,220	664,031	1,270	4,694,161
Balance, January 1, 2016	584,640	3,444,220	664,031	1,270	4,694,161
Additions	-	-	81,513	7,617	89,130
Transfers	-	-	1,270	(1,270)	-
Sales	-	-	(5,687)	-	(5,687)
Other	-	-	(257)	-	(257)
Balance, December 31, 2016	584,640	3,444,220	740,870	7,617	4,777,347
Accumulated Depreciation					
Balance, January 1, 2015	-	1,646,120	365,838	-	2,011,958
Charge for the year (Note 11)	-	88,367	65,413	-	153,780
Balance, December 31, 2015	-	1,734,487	431,251	-	2,165,738
Balance, January 1, 2016	-	1,734,487	431,251	-	2,165,738
Charge for the year (Note 11)	-	88,449	63,887	-	152,336
Sales	-	-	(4,336)	-	(4,336)
Other	-	-	(20)	-	(20)
Balance, December 31, 2016	-	1,822,936	490,782	-	2,313,718
Net Book Value:					
- at December 31, 2016	584,640	1,621,284	250,088	7,617	2,463,629
- at December 31, 2015	584,640	1,709,733	232,780	1,270	2,528,423

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

18. PROPERTY AND EQUIPMENT (Continued)

As of December 31, 2016, 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 amounted to RSD 1,621,284 thousand (Note 27).

19. INVENTORIES

	December 31, 2016	December 31, 2015
Materials, spare parts, tools and fixtures		
- spare parts	12,551	11,734
- miscellaneous materials	5,676	4,472
- food	3,530	4,073
- fuel	1,044	1,057
- office supplies	2,574	2,900
- small tools and fixtures in use	2,394	4,024
	27,769	28,260
Goods:		
- drinks	6,675	5,759
- cigarettes	154	101
	6,829	5,860
Advances paid to suppliers	3,208	4,489
	37,806	38,609

20. TRADE RECEIVABLES

	December 31, 2016	December 31, 2015
Domestic trade receivables - other related parties (Note 33)	311	246
Domestic trade receivables	21,537	20,186
Foreign trade receivables	1,634	2,204
	23,482	22,636
Less: Allowance for impairment of domestic trade receivables	(1,263)	(1,325)
	22,219	21,311

21. OTHER RECEIVABLES

	December 31, 2016	December 31, 2015
Receivables from employees	626	613
Receivables for prepaid income taxes	977	22,509
Receivables for prepaid other taxes and contributions	627	507
Other current receivables	160	-
	2,390	23,629

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22. SHORT-TERM FINANCIAL INVESTMENTS

The Company's short-term financial investments stated as totaling RSD 10,171 thousand (EUR 82,000) as of December 31, 2016 relate to a short-term foreign currency deposit placed as collateral securitizing repayment of a short-term loan approved by a domestic bank to one of the Company's related parties. The deposit matures in August 2017 and accrues interest at a rate of 0.25% per annum.

23. CASH AND CASH EQUIVALENTS

	December 31, 2016	December 31, 2015
Current accounts in RSD	314,836	191,472
Cash on hand in RSD	7,097	3,549
Foreign currency accounts	163,942	128,552
Cash on hand in foreign currencies	1,400	876
Other cash funds	108	37
	487,383	324,486

24. PREPAYMENTS

	December 31, 2016	December 31, 2015
Prepaid insurance costs	2,984	3,457
Prepaid software maintenance costs	1,411	1,104
Uninvoiced income and other prepayments	1,609	9,874
	6,004	14,435

25. EQUITY

The structure of the Company's share capital as of December 31, 2016 and 2015 was as follows:

	December 31, 2016		December 31, 2015	
	RSD '000	Interest %	RSD '000	Interest %
Luella Enterprises Company, Cyprus	2,553,809	94.50	2,553,809	94.50
Energoprojekt Holding a.d. Beograd	145,922	5.40	145,922	5.40
Putnik a.d. Beograd	2,648	0.10	2,648	0.10
	2,702,379	100.00	2,702,379	100.00

Movements on the equity accounts during 2016 and 2015 were as follows:

	Share Capital	Reserves	Retained Earnings	Accumulated Losses	Total
Balance at January 1, 2015	2,702,379	361,669	419,406	(1,217,950)	2,265,504
Net profit for the year	-	-	102,808	-	102,808
Balance at December 31, 2015	2,702,379	361,669	522,214	(1,217,950)	2,368,312
Balance at January 1, 2016	2,702,379	361,669	522,214	(1,217,950)	2,368,312
Net profit for the year	-	-	155,948	-	155,948
Balance at December 31, 2016	2,702,379	361,669	678,162	(1,217,950)	2,524,260

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25. EQUITY (Continued)

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

26. PROVISIONS FOR LITIGATIONS

Provisions for litigations totaling RSD 64,832 thousand as of December 31, 2016 (December 31, 2015: RSD 58,451 thousand) for the major part of RSD 62,556 thousand, refer to the legal proceedings in progress before the judicial bodies of the Republic of Serbia for determining the right to the monetary compensation to the former owners for the land expropriated, where the buildings of the Hyatt Hotel, NIS and Construction Company Rad were built (Note 35). In 2016 the Company made additional provisions for the aforesaid lawsuit in the amount of RSD 6,381 thousand based on the appraisal performed by the court valuer as of December 31, 2016.

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

	December 31, 2016	December 31, 2015
Long-term borrowings (Note 33)	280,529	343,593
Less: Current portion of long-term borrowings (Note 28)	(280,529)	(327,711)
	-	15,882
Long-term finance lease liabilities	-	340
Less: Current portion of long-term finance lease liabilities (Note 28)	-	(340)
	-	-
	-	15,882
Other long-term liabilities	176	178

Long-term borrowings totaling RSD 280,529 thousand as of December 31, 2016 (December 31, 2015: RSD 343,593 thousand) relate to the liabilities to Markelia Enterprises Company Limited per loans approved to the Company at the interest rate equal to 3-month LIBOR plus 3% per annum. The loan is due for repayment on June 30, 2017.

As collateral securing the timely and regular repayment of the loan a mortgage was registered over a building in the ownership of the Company (Note 18).

28. SHORT-TERM FINANCIAL LIABILITIES

	December 31, 2016	December 31, 2015
Current portion of long-term borrowings (Notes 27 and 33)	280,529	327,711
Current portion of long-term finance lease liabilities (Note 27)	-	340
	280,529	328,051

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

29. ADVANCES, DEPOSITS AND RETAINERS RECEIVED AND TRADE PAYABLES

	December 31, 2016	December 31, 2015
Advances received	8,118	25,091
Trade payables		
Trade payables – other related parties, foreign and remunerations to the management (Note 33)	7,074	7,080
Domestic trade payables	7,723	5,815
Foreign trade payables	890	596
	15,687	13,491

30. OTHER CURRENT LIABILITIES

	December 31, 2016	December 31, 2015
Other liabilities from specific operations	-	520
Net employee salaries and benefits other than refundable salaries	548	851
Interest payable and cost of financing (Note 33)	3,620	4,975
Liabilities to employees	99	156
	4,267	6,502

31. VALUE ADDED TAX PAYABLE

Value added tax payable amounting to RSD 8,622 thousand as of December 31, 2016 (December 31, 2015: RSD 5,887 thousand) entirely relate to the value added tax liabilities arising from the difference between the output and input VAT amounts.

32. ACCRUALS

	December 31, 2016	December 31, 2015
Accrued expenses for bonuses	11,663	10,089
Accrued electricity costs	3,187	2,442
Accrued gas costs	2,841	3,434
Accrued Gold Passport expenses	1,585	719
Accrued tourist agency expenses	980	1,436
Accrued HR activity expenses	888	5,148
Accrued other expenses	4,077	3,395
Deferred Fitness Club income	10,589	11,991
Deferred other income	1,742	2,125
	37,552	40,779

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

33. RELATED PARTY DISCLOSURES

In the normal course of business, the Company enters into transactions with its related parties (in addition to the majority and minority shareholders, related parties include member firms of the Lampsa Hellenic Hotel Group). Relationships and transactions among the Company and its related parties are defined on a contractual basis and performed under market terms. As of December 31, 2016 and 2015 the balances of receivables and payables and related party transactions relate to the fees payable under the Management Agreement to Hyatt International EAME, interest expenses, foreign exchange gains and losses, trade receivables, long-term borrowings, trade payables (management fees payable to Hyatt International EAME) and interest liabilities disclosed within other current liabilities.

a) Balance Sheet

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

	December 31, 2016	December 31, 2015
Trade receivables (Note 20)		
- Excelsior a.d., Beograd	311	246
Total receivables	**311**	**246**
Long-term borrowings (Note 27)		
- Markelia Enterprises Company Limited	-	(15,882)
Short-term financial liabilities (Note 28)		
- Markelia Enterprises Company Limited	(280,529)	(327,711)
Trade payables (Note 29)		
- Hyatt International EAME	(7,074)	(7,080)
Other current liabilities (Note 30)		
- Markelia Enterprises Company Limited	(3,620)	(4,975)
Total liabilities	**(291,223)**	**(355,648)**
Liabilities, net	**(290,912)**	**(355,402)**

b) Income Statement

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

	2016	2015
Sales of products and services (Note 5) :		
- Excelsior a.d., Beograd	2,407	2,826
Finance income (Note 13)		
- Markelia Enterprises Company Limited	14,636	35,670
Total income	**17,043**	**38,496**
Non-material costs (Note 12)		
- Hyatt International EAME	(79,856)	(74,715)
Finance expenses (Note 14)		
- Markelia Enterprises Company Limited	(41,615)	(109,453)
Total expenses	**(121,471)**	**(184,168)**
Expenses, net	**(104,428)**	**(145,672)**

The Company calculated remunerations to the members of the Board of Directors in the total amount of RSD 6,098 thousand, gross for the year ended December 31, 2016.

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

34. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Capital Risk Management

There is no formal framework delineating the Company's capital risk management. The Company manages capital risk and tries to relieve the risk effects in order to ensure the continuity of its business operations in the foreseeable future while maximizing return on equity to its owners through optimization of the capital structure and debt to equity ratio. The Company's equity includes cash and cash equivalents (Note 23) and equity attributable to owners, which include share capital, reserves, retained earnings, as well as accumulated losses.

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

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

	December 31, 2016	December 31, 2015
Debt a)	284,325	349,086
Cash and cash equivalents	487,383	324,486
Net debt	-	24,600
Equity b)	2,524,260	2,368,312
Debt to equity ratio	-	0,01

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

Significant accounting policies with reference to financial instruments

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

Categories of Financial Instruments

	December 31, 2016	December 31, 2015
Financial assets		
Short-term financial investments	10,171	89
Trade receivables	22,219	21,311
Receivables from specific operations	2	35
Receivables for uninvoiced income	1,609	9,248
Cash and cash equivalents	487,383	324,486
	521,384	355,169
Financial liabilities		
Trade payables	15,687	13,491
Long-term borrowings	-	15,882
Other long-term liabilities	176	178
Short-term financial liabilities	280,529	327,711
Current portion of finance lease liabilities	-	340
Interest liabilities	3,620	4,975
Accrued expenses and other liabilities	25,221	27,183
	325,233	389,760

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

34. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

Categories of Financial Instruments (Continued)

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

Financial Risk Management

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

Market Risk

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

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

Foreign Currency Risk

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

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

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

	Assets		Liabilities	
	December 31, 2016	December 31, 2015	December 31, 2016	December 31, 2015
EUR	157,000	120,359	7,785	7,690
USD	19,857	11,272	295,169	353,077
	176,857	131,631	302,954	360,767

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

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

34. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

Market Risk (Continued)

Foreign Currency Risk (Continued)

	December 31, 2016	December 31, 2015
EUR	14,921	11,267
USD	(27,531)	(34,181)
Impact on the current year's profit	(12,610)	(22,914)

The Company's sensitivity to the changes in foreign currency exchange rates decreased in the current period, mainly as a result of the effects of the nominal decrease in USD-denominated liabilities, mostly borrowings (Notes 27 and 28) and an increase in foreign currency assets.

Interest Rate Risk

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

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

	December 31, 2016	December 31, 2015
Financial assets		
Non-interest bearing		
Short-term financial investments	-	89
Trade receivables	22,219	21,311
Receivables from specific operations	2	35
Receivables for uninvoiced income	1,609	9,248
Cash and cash equivalents	487,383	324,486
	511,213	355,169
Fixed interest rates		
Short-term financial investments	10,171	-
	521,384	355,169
Financial liabilities		
Non-interest bearing		
Trade payables	15,687	13,491
Accrued expenses and other liabilities	25,221	27,183
Other long-term liabilities	176	178
	41,084	40,852
Fixed interest rates		
Current portion of finance lease liabilities	-	340
Variable interest rates		
Long-term borrowings	-	15,882
Short-term financial liabilities	280,529	327,711
Interest liabilities	3,620	4,975
	284,149	348,568
	325,233	389,760

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34. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

Market Risk (Continued)

Interest Rate Risk (Continued)

The sensitivity analysis presented in the following text has been established based on the Company's exposure to interest rate risk inherent in non-derivative instruments as of the balance sheet date. For liabilities with variable interest rate, the analysis has been prepared under the assumption that the outstanding balance of assets and liabilities as of the balance sheet date remained constant throughout the year. The increase or decrease in interest rates of 1 percentage point represents the fluctuation reasonably anticipated by the management. Had interest rate been 1 percentage point higher/lower and all the other variables remained unchanged, the Company would have incurred an operating loss / realized profit of RSD 2,841 thousand for the year ended December 31, 2016 (December 31, 2015: RSD 3,436 thousand). Such situation is attributed to the Company's exposure to the variable interest rates applied to long-term borrowings.

The Company's interest rate risk exposure decreased during the current period mostly due to the nominal decrease in liabilities per long-term borrowings.

Credit Risk

Managing Trade Receivables

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

The most significant customers are presented below:

	December 31, 2016	December 31, 2015
Lufthansa City Line GmbH, Cologne, Germany	1,991	2,306
Travco Corporation Limited, London, UK	1,638	1,894
City Records d.o.o., Beograd	2,479	1,585
Verdict film d.o.o., Beograd	1,596	1,385
NIS a.d., Novi Sad	1,795	24
Kompas d.o.o., Beograd	1,479	51
Telekom Srbija ad, Beograd	533	534
Robert Bosch d.o.o., Beograd	852	-
RS Ministry of Interior, Belgrade	807	-
Balcan-Adriatic d.o.o., Beograd	659	-
Other customers	9,653	14,857
	23,482	22,636
Less: Allowance for impairment of trade receivables	(1,263)	(1,325)
	22,219	21,311

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

	2016	2015
Balance at January 1	1,325	2,000
Recovery of receivables previously provided for	-	(675)
Derecognition of receivables	(62)	-
Balance at December 31	1,263	1,325

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

34. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

Credit Risk (Continued)

Managing Trade Receivables (Continued)

The structure of trade receivables as of December 31, 2016 is presented in the following table:

	Gross Exposure	Impairment Allowance	Net Exposure
Trade receivables, not matured	10,055	-	10,055
Trade receivables, matured and provided for	1,263	(1,263)	-
Trade receivables, matured but not provided for	12,164	-	12,164
	23,482	(1,263)	22,219

The structure of trade receivables as of December 31, 2015 is presented in the following table:

	Gross Exposure	Impairment Allowance	Net Exposure
Trade receivables, not matured	10,573	-	10,573
Trade receivables, matured and provided for	1,325	(1,325)	-
Trade receivables, matured but not provided for	10,738	-	10,738
	22,636	(1,325)	21,311

Trade receivables, not matured

Trade receivables, not matured totaling RSD 10,055 thousand as of December 31, 2016 (December 31, 2015: RSD 10,573 thousand) mainly relate to receivables from the sales of services in the last week of 2016. These receivables mainly mature within 7 days from the invoice date, depending on the contractual terms of payment. The average days sales outstanding in 2016 counted 20 days (2015: 10 days).

Trade receivables, matured and provided for

In prior periods the Company made impairment allowance of receivables matured and past due in the amount of RSD od 1,263 thousand (2015: RSD 1,325 thousand), due from customers whose creditworthiness was determined to have changed and which were assessed as unlikely to be collected in full.

Trade Receivables, matured but not provided for

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

	December 31, 2016	December 31, 2015
Less than 30 days past due	9,822	9,871
From 31 to 90 days past due	2,098	867
From 91 to 180 days past due	58	-
From 181 to 365 days past due	77	-
Over a year past due	109	-
	12,164	10,738

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

34. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

Credit Risk (Continued)

Managing Trade Payables

Trade payables as of December 31, 2016 were stated as amounting to RSD 15,687 thousand (December 31, 2015: RSD 13,491 thousand). Suppliers do not charge penalty interest on outstanding liabilities, whereby the Company settled its dues to suppliers within the agreed terms, in accordance with the financial risk management policies. The average days payable outstanding in 2016 counted 11 days (2015: 15 days).

Liquidity Risk

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

Liquidity Risk and Credit Risk Tables

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

Maturities of Financial Assets

December 31, 2016

	Within 1 Month	From 1 to 3 Months	From 3 Months to 1 Year	From 1 to 5 Years	Over 5 Years	Total
Non-interest bearing	511,213	-	-	-	-	511,213
Fixed interest rate						
- principal	-	-	10,171	-	-	10,171
- interest	-	-	8	-	-	8
	511,213	-	10,179	-	-	521,392

December 31, 2015

	Within 1 Month	From 1 to 3 Months	From 3 Months to 1 Year	From 1 to 5 Years	Over 5 Years	Total
N Non-interest bearing	355,169	-	-	-	-	355,169
	355,169	-	-	-	-	355,169

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

Maturities of Financial Liabilities

December 31, 2016

	Within 1 Month	From 1 to 3 Months	From 3 Months to 1 Year	From 1 to 5 Years	Over 5 Years	Total
Non-interest bearing	15,687	25,221	-	176	-	41,084
Variable interest rate						
- principal	169,130	57,509	57,510	-	-	284,149
- interest	5,155	1,961	1,545	-	-	8,661
	189,972	84,691	59,055	176	-	333,894

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34. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

Liquidity Risk (Continued)

Liquidity Risk and Credit Risk Tables (Continued)

Maturities of Financial Liabilities (Continued)

December 31, 2015

	Within 1 Month	From 1 to 3 Months	From 3 Months to 1 Year	From 1 to 5 Years	Over 5 Years	Total
Non-interest bearing	14,011	26,663	-	178	-	40,852
Fixed interest rate						
- principal	-	-	340	-	-	340
- interest	-	-	3	-	-	3
Variable interest rate						
- principal	4,975	163,855	163,856	15,882	-	348,568
- interest	272	2,138	2,334	223	-	4,967
	19,258	192,656	166,533	16,283	-	394,730

Fair Value of Financial Instruments

The following table provides the present values of the Company's financial assets and liabilities and their fair values as of December 31, 2016 and 2015:

	December 31, 2016 Carrying Value	December 31, 2016 Fair Value	December 31, 2015 Carrying Value	December 31, 2015 Fair Value
Financial assets				
Short-term financial investments	10,171	10,171	89	89
Trade receivables	22,219	22,219	21,311	21,311
Receivables from specific operations	2	2	35	35
Receivables for uninvoiced income	1,609	1,609	9,248	9,248
Cash and cash equivalents	487,383	487,383	324,486	324,486
	521,384	521,384	355,169	355,169
Financial liabilities				
Trade payables	15,687	15,687	13,491	13,491
Long-term borrowings	-	-	15,882	15,882
Other long-term liabilities	176	176	178	178
Short-term financial liabilities	280,529	280,529	327,711	327,711
Current portion of finance lease liabilities	-	-	340	340
Interest liabilities	3,620	3,620	4,975	4,975
Accrued expenses and other liabilities	25,221	25,221	27,183	27,183
	325,233	325,233	389,760	389,760

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

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

35. LITIGATION

Provisions for Litigations

As of December 31, 2016 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 201,267 thousand as of December 31, 2016, excluding any penalty interest. Based on the opinion of the attorneys and management's estimate, a provision of RSD 64,832 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, Beograd ("Rad") were built as well as three labor lawsuits with former executives.

Administrative proceedings for the compensation to the former owners of the confiscated land on which the Hyatt Hotel, 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 m^2. 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. Until the issue date of the accompanying financial statements, no ruling of the Constitutional Court on the aforesaid appeal has been received. Potential financial implications of these proceedings may be significant. The Company's management hired a certified court valuer who appraised the value of land subject to litigation as amounting to EUR 506,640 as of December 31, 2016. Accordingly, the Company made a provision for a loss contingent on the aforedescribed administrative proceedings in the amount of RSD 62,556 thousand. As there is no agreement among the parties on the amount of the compensation, the compensation amount shall be determined by means of expert analysis (which is in progress) in extra-judicial proceedings, under expropriation rules. It was established that one of the former land owners deceased in 2011 so the Court discontinued the procedure with regard to this plaintiff. In accordance with the provisions of the laws governing payment, the monetary compensation determined by the court is payable in equal quarterly installments within 10 years, as from the expiry date of one-year period from the court ruling finality date.

Legal proceedings totaling RSD 130,986 thousand have been filed against the Company by two former employees (the "Plaintiffs") over payment of compensation for termination of employment and based on non-competition clause. The Company holds that employment of the Plaintiffs was terminated in accordance with the Labor Law, since the Plaintiffs refused to continue employment with the Company. In addition, in the management's opinion, the Plaintiffs are exempt from the prohibition to perform competitive activities in accordance with the executed Employment Contracts. Based on the report of the expert finance valuer, the Company filed 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 the financial statements for 2016.

36. EVENTS AFTER THE REPORTING PERIOD

Subsequent to the reporting date there have been no events or developments in litigations described in Note 35 that would have an effect on or require additional disclosures in the accompanying financial statements.

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

37. TAXATION RISKS

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

38. EXCHANGE RATES

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

		In RSD
	December 31, 2016	**December 31, 2015**
EUR	123.4723	121.6261
USD	117.1353	111.2468

APPENDICES

Appendix 1

INCOME STATEMENT
Year Ended December 31, 2016
(Thousands of EUR)

	Note	2016	2015
Operating income			
Sales of goods in domestic market	5	533	561
Sales of products and services to other related parties in domestic market	5	20	23
Sales of products and services in domestic market	5	8,787	8,416
Other operating income	6	396	320
		9,736	9,320
Operating expenses			
Cost of commercial goods sold		(106)	(107)
Cost of materials	7	(1,242)	(1,090)
Cost of fuel and energy	8	(498)	(558)
Staff costs	9	(2,906)	(2,730)
Cost of production services	10	(672)	(595)
Depreciation/amortization charge	11	(1,284)	(1,319)
Long-term provisions	26	(52)	-
Non-material costs	12	(1,401)	(1,476)
		(8,161)	(7,875)
Profit from operations		1,575	1,445
Finance income			
Finance income from other related parties	13	119	295
Interest income (from third parties)	13	20	36
Foreign exchange gains and positive currency clause effects (third parties)	13	7	102
		146	433
Finance expenses			
Finance expenses to other related parties	14	(338)	(907)
Other finance expenses	14	(10)	(11)
Interest expenses (to third parties)	14	-	-
Foreign exchange losses and negative currency clause effects (to third parties)	14	(4)	(23)
		(352)	(941)
Loss from financing activities		(206)	(508)
Other income	15	35	6
Other expenses		-	(3)
Profit from continuing operations before taxes		1,404	940
Current income tax expense	16a	(175)	(131)
Deferred tax benefits	16a	38	42
NET PROFIT FOR THE YEAR		1,267	851

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, 2016 and 2015 was performed using the following average exchange rates:

- 2016: 123,1179
- 2015: 120,7328

Appendix 2

BALANCE SHEET
As of December 31, 2016
(Thousands of EUR)

	Note	December 31, 2016	December 31, 2015
ASSETS			
Non-current assets		20,120	20,973
Intangible assets		167	185
Concessions, patents, licenses, trademarks, software and other rights	17	69	87
Other intangible assets	17	98	98
Property, plant and equipment		19,953	20,788
Land	18	4,735	4,807
Buildings	18	13,131	14,057
Plant and equipment	18	2,025	1,914
Other property, plant and equipment	18	62	10
Current assets		4,584	3,475
Inventories		306	317
Materials, spare parts, small tools and fixtures	19	225	232
Goods	19	55	48
Advances paid for inventories and services	19	26	37
Trade receivables		180	175
Domestic - other related parties	20	3	2
Domestic	20	164	155
Foreign	20	13	18
Receivables from specific operations		-	-
Other receivables	21	20	194
Short-term financial investments			
Other short-term financial investments	22	82	1
Cash and cash equivalents	23	3,947	2,668
Prepayments	24	49	120
Total assets		24,704	24,448

(Continued)

Appendix 2
(Continued)

BALANCE SHEET (Continued)
As of December 31, 2016
(Thousands of EUR)

	Note	December 31, 2016	December 31, 2015
EQUITY AND LIABILITIES			
Equity		20,444	19,472
Share capital		21,887	22,219
Reserves		2,929	2,974
Current year's retained earnings		1,267	3,699
Prior years' retained earnings		4,294	851
Prior years' accumulated losses		(10,015)	(10,015)
Translation reserves		82	(256)
Non-current provisions and liabilities		526	613
Provisions for litigations		525	481
Long-term borrowings, foreign		-	131
Other long-term liabilities		1	1
Deferred tax liabilities		853	904
Current liabilities			
Short-term financial liabilities		2,272	2,697
Other short-term financial liabilities		2,272	2,697
Advances, deposits and retainers received		66	206
Trade payables		127	111
Foreign - other related parties		57	58
Domestic		63	48
Foreign		7	5
Other current liabilities		35	53
Value added tax payable		70	48
Other taxes, contributions and duties payable		7	8
Accruals		304	336
Total equity and liabilities		24,704	24,448

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, 2016 and 2015 was performed using the following closing rates:

- December 31, 2016: 123,4723
- December 31, 2015: 121,6261

Appendix 3

INCOME STATEMENT
Year Ended December 31, 2016
(Thousands of EUR)

	2016	2015
Operting income		
Sales of goods in domestic market	533	561
Sales of products and services to other related parties in domestic market	20	23
Sales of products and services in domestic market	8,788	8,416
Other operaing income	396	320
	9,737	9,320
Operating expenses		
Cost of commercial goods sold	(106)	(107)
Cost of materials	(1,242)	(1,090)
Cost of fuel and energy	(498)	(558)
Staff costs	(2,905)	(2,730)
Cost of production services	(672)	(595)
Depreciation/amortization charge	(1,284)	(1,319)
Long-term provisions	(52)	-
Non-material costs	(1,402)	(1,476)
	(8,161)	(7,875)
Profit from operations	1,576	1,445
Finance income		
Finance income from other related parties	119	295
Interest income (from third parties)	20	36
Foreign exchange gains and positive currency clause effects (third parties)	7	102
	146	433
Finance expenses		
Finance expenses to other related parties	(338)	(906)
Other finance expenses	(10)	(12)
Interest expenses (to third parties)	-	-
Foreign exchange losses and negative currency clause effects (to third parties)	(4)	(23)
	(352)	(941)
Loss from financing activities	(206)	(508)
Other income	34	6
Other expenses	-	(3)
Profit from continuing operations before taxes	1,404	940
Current income tax expense	(175)	(131)
Deferred tax benefits	38	42
NET PROFIT FOR THE YEAR	1,267	851

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, 2016 and 2015 was performed using the following average exchange rates:

- 2016: 123.1179
- 2015: 120.7328

Appendix 4

BALANCE SHEET
As of December 31, 2016
(Thousands of EUR)

	December 31, 2016	December 31, 2015
ASSETS		
Non-current assets	20,120	20,973
Intangible assets	167	185
Concessions, patents, licenses, trademarks, software and other rights	68	87
Other intangible assets	99	98
Property, plant and equipment	19,953	20,788
Land	4,735	4,807
Buildings	13,131	14,057
Plant and equipment	2,025	1,914
Other property, plant and equipment	62	10
Current assets	4,584	3,475
Inventories	306	317
Materials, spare parts, small tools and fixtures	225	232
Goods	55	48
Advances paid for inventories and services	26	37
Trade receivables	180	175
Domestic - other related parties	3	2
Domestic	164	155
Foreign	13	18
Receivables from specific operations	-	-
Other receivables	19	194
Short-term financial investments		
Other short-term financial investments	82	1
Cash and cash equivalents	3,947	2,668
Prepayments	50	120
Total assets	24,704	24,448

Appendix 4
(Continued)

BALANCE SHEET (Continued)
As of December 31, 2016
(Thousands of EUR)

	December 31, 2016	December 31, 2015
EQUITY AND LIABILITIES		
Equity	20,444	19,472
Share capital	30,860	30,860
Reserves	4,476	4,476
Net profit for the year	1,267	851
Retained earnings - previous years	4,559	3,708
Accumulated losses	(10,710)	(10,710)
Translation reserves	(10,008)	(9,713)
Non-current provisions and liabilities	526	613
Provisions for litigations	525	481
Long-term borrowings, foreign	0	131
Other long-term liabilities	1	1
Deferred tax liabilities	853	904
Current liabilities		
Short-term financial liabilities	2,272	2,697
Other short-term financial liabilities	2,272	2,697
Advances, deposits and retainers received	66	206
Trade payables	127	111
Foreign - other related parties	57	58
Domestic	63	48
Foreign	7	5
Other current liabilities	35	53
Value added tax payable	70	48
Other taxes, contributions and duties payable	7	8
Accruals	304	336
Total equity and liabilities	24,704	24,448

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, 2016 and 2015 was performed using the following rates:

- Balance Sheet items at December 31, 2016 except for the share capital, revaluation reserves and net profir were translated using the closing rate: 123.4723
- Balance Sheet items at December 31, 2015 except for the share capital, revaluation reserves and net profit were translated using the closing rate: 121.6261
- Share capital at December 31, 2016 and December 31, 2015 was translated using the historical exchange rate: 87.569.
- Revaluation reserves at December 31, 2016 and December 31, 2015 were translated using the exchange rate at the date of revaluation of property, plant and equipment: 80.8018.
- Net profits for the years ended December 31, 2016 and December 31, 2015 were translated using the average exchange rate for 2016 and 2015: 123.1179 and 120.7328.