# HOTELIJERSKO AKCIONARSKO DRUŠTVO BEOGRADSKO MEŠOVITO PREDUZEĆE AD BEOGRAD

**Financial Statements prepared in accordance with IFRS**
**for the year ended 31 December 2012**
**with Independent Auditors' Report thereon**

Belgrade, March 2013

# FINANCIAL STATEMENTS PREPARED IN ACCORDANCE WITH IFRS FOR THE YEAR ENDED 31 DECEMBER 2012

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## Independent Auditors' Report

TO THE SHAREHOLDERS OF HOTELIJERSKO AKCIONARSKO DRUŠTVO BEOGRADSKO MEŠOVITO PREDUZEĆE AD BEOGRAD

We have audited the accompanying financial statements of Hotelijersko Akcionarsko Društvo Beogradsko Mešovito Preduzeće AD Beograd (hereinafter: the "Company" or "BMP") which comprise the statement of financial position as at 31 December 2012, the statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

*Management's Responsibility for the Financial Statements*

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

*Auditors' Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about 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 our 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, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

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KPMG d.o.o. Beograd je jednočlano društvo.

*Opinion*

In our opinion, the financial statements give a true and fair view of the financial position of the Company as at 31 December 2012, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

KPMG d.o.o. Beograd

Belgrade, 28 March 2013

## STATEMENT OF FINANCIAL POSITION

| In thousands of EUR | Note | 31 December 2012 | 31 December 2011 |
|---|---|---|---|
| **Assets** | | | |
| Property and equipment | 11 | 42,938 | 44,555 |
| Intangible assets | 11 | 261 | 275 |
| **Non-current assets** | | 43,199 | 44,830 |
| Inventories | 12 | 308 | 326 |
| Trade receivables | 13 | 296 | 192 |
| Financial investments | 14 | - | 120 |
| Other receivables | 15 | 281 | 296 |
| Cash and cash equivalents | 16 | 1,220 | 941 |
| **Current assets** | | 2,105 | 1,875 |
| **Total assets** | | **45,304** | **46,705** |
| **Equity** | | | |
| Share capital | | 30,860 | 30,860 |
| Reserves | | 16,053 | 17,431 |
| Accumulated losses | | (12,760) | (14,198) |
| **Total equity** | 17 | 34,153 | 34,093 |
| **Liabilities** | | | |
| Loans and borrowings | 18 | 5,489 | 8,354 |
| Deferred tax liabilities | 10 | 3,565 | 2,025 |
| **Non-current liabilities** | | 9,054 | 10,379 |
| Loans and borrowings | 18 | 1,498 | 1,529 |
| Trade payables | 19 | 107 | 254 |
| Current tax liabilities | | 105 | 43 |
| Other liabilities and accruals | 20 | 387 | 407 |
| **Current liabilities** | | 2,097 | 2,233 |
| **Total liabilities** | | 11,151 | 12,612 |
| **Total equity and liabilities** | | **45,304** | **46,705** |

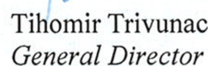
The notes on pages 7 to 30 form an integral part of
the Financial Statements prepared in accordance with IFRS.
Independent Auditors' Report – pages 1 and 2.

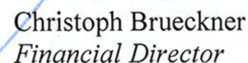
## STATEMENT OF COMPREHENSIVE INCOME
## FOR THE YEAR ENDED 31 DECEMBER

| In thousands of EUR | Note | 2012 | 2011 |
|---|---|---|---|
| Revenue | 5 | 12,396 | 13,028 |
| Cost of materials and goods sold | 6 | (1,949) | (2,109) |
| Staff costs | 7 | (3,439) | (3,502) |
| Depreciation and amortization | 11 | (2,249) | (1,671) |
| Other expenses | 8 | (2,841) | (3,347) |
| **Results from operating activities** | | 1,918 | 2,399 |
| Finance income | 9 | 99 | 42 |
| Finance costs | 9 | (298) | (528) |
| **Net finance costs** | | (199) | (486) |
| **Profit before tax** | | 1,719 | 1,913 |
| Tax expense | 10 | (281) | (91) |
| **Profit for the year** | | **1,438** | **1,822** |
| **Other comprehensive income** | | | |
| Revaluation of property and equipment | 11 | - | 474 |
| Increase in deferred tax liability | 10 | (1,378) | - |
| **Other comprehensive income for the year** | | (1,378) | 474 |
| **Total comprehensive income for the year** | | **60** | **2,296** |

Belgrade, 28 March 2013

HOTELIJERSKO AKCIONARSKO DRUŠTVO
BEOGRADSKO MEŠOVITO PREDUZEĆE AD, BEOGRAD





Tihomir Trivunac
*General Director*

Christoph Brueckner
*Financial Director*

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**STATEMENT OF CHANGES IN EQUITY**
**FOR THE YEAR ENDED 31 DECEMBER**

| In thousands of EUR | Share Capital | Reserves | Accumulated loss | Total |
|---|---|---|---|---|
| **Balance at 1 January 2011** | 30,860 | 16,957 | (16,020) | 31,797 |
| Profit for the year | - | - | 1,822 | 1,822 |
| Other comprehensive income - appraisal effects | - | 474 | - | 474 |
| Total comprehensive income for the year | - | 474 | 1,822 | 2,296 |
| **Balance at 31 December 2011** | **30,860** | **17,431** | **(14,198)** | **34,093** |
| **Balance at 1 January 2012** | 30,860 | 17,431 | (14,198) | 34,093 |
| Profit for the year | - | - | 1,438 | 1,438 |
| Increase in deferred tax liability (Note 10) | - | (1,378) | - | (1,378) |
| Total comprehensive income for the year | - | (1,378) | 1,438 | 60 |
| **Balance at 31 December 2012** | **30,860** | **16,053** | **(12,760)** | **34,153** |

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the Financial Statements prepared in accordance with IFRS.
Independent Auditors' Report – pages 1 and 2.

**STATEMENT OF CASH FLOWS**
**FOR THE YEAR ENDED 31 DECEMBER**

| In thousands of EUR | Note | 2012 | 2011 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Profit for the year | | 1,438 | 1,822 |
| Adjustments for: | | | |
| Depreciation and amortization | 11 | 2,249 | 1,671 |
| Foreign exchange losses/(gains), net | 9 | (84) | 164 |
| Financial expenses (including withholding taxes) | 9 | 331 | 404 |
| Tax expense | 10 | 281 | 91 |
| Changes in: | | | |
| - trade receivables | 13 | (104) | 59 |
| - other receivables | 15 | 15 | (47) |
| - inventories | 12 | 18 | 20 |
| - accounts payable and other current liabilities | | (167) | 73 |
| Income taxes paid | | (152) | (121) |
| Other | | (27) | (41) |
| **Net cash from operating activities** | | 3,798 | 4,095 |
| **Cash flows from investing activities** | | | |
| Purchases of equipment and additions to buildings | 11 | (567) | (1,992) |
| Purchases of intangible assets | 11 | (51) | (72) |
| Proceeds from financial investments | 14 | 120 | 60 |
| Interest received | | 15 | 42 |
| **Net cash used in investing activities** | | (483) | (1,962) |
| **Cash flows used in financing activities** | | | |
| Repayment of borrowings | | (2,738) | (2,715) |
| Interest paid | | (298) | (362) |
| **Net cash used in financing activities** | | (3,036) | (3,077) |
| **Net decrease in cash and cash equivalents** | | 279 | (944) |
| Cash and cash equivalents at 1 January | | 941 | 1,885 |
| **Cash and cash equivalents at 31 December** | 16 | **1,220** | **941** |

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## 1 REPORTING ENTITY

Hotelijersko Akcionarsko Društvo Beogradsko Mešovito Preduzeće AD Beograd (hereinafter: the "Company" or "BMP") is a company domiciled in Serbia. The Company was established based on the Foundation and Investment Agreement executed on April 14, 1989 between North Haven Limited, Hong Kong company, and two Serbian companies. North Haven Limited, Hong Kong was owned by Hyatt International Corporation ("HIC") up to the year of 2006, which is incorporated in the United States of America. In 2006 Hyatt International Corporation sold its interest in North Haven Limited, Hong Kong to Luella Enterprises Company Limited, Nicosia, owned by Lampsa Hellenic Hotel Company S.A., Athens (ultimate parent of the Company).

In 1989 BMP entered into a Management Agreement with Hyatt International Asia Pacific Limited, to manage and operate the hotel for a period of twenty full calendar years from the date of opening, and an extension thereto for three, ten-year renewal periods at the option of Hyatt International Asia Pacific Limited (the "Management Agreement"). On January 1, 1991 the Management Agreement was transferred under the same terms and conditions to Hyatt International (Europe, Africa, Middle East) Ltd., a company incorporated in Switzerland.

The primary business activity of the Company is to operate the Hyatt Regency Belgrade Hotel (hereinafter: "Hotel"). The Company's business activity includes other activities necessary for successful primary business activity. The Company's registered office is in Belgrade, Milentija Popovića 5.

## 2 BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS IN ACCORDANCE WITH INTERNATIONAL FINANCIAL REPORTING STANDARDS

### (a) Statement of compliance

The financial statements are prepared in accordance with International Financial Reporting Standards (IFRSs).

The financial statements were authorized for issue by the Board of Directors on 28 March 2013.

### (b) Basis of measurement

The financial statements of the Company have been prepared on the historical cost basis except for property and equipment, which are carried at revalued amount as described in Note 3d.

### (c) Functional and presentational currency

These financial statements are presented in euro, which is the Company's functional currency. All financial information presented in euro has been rounded to the nearest thousands, except when otherwise indicated.

### (d) Use of estimates and judgments

The preparation of the financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Information about critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the financial statements is included in the following notes: Notes 3d, 11 Property, equipment, Note 10 – deferred taxes and Note 22 – contingent liabilities.

## 3 SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied to all periods presented in these financial statements, and have been applied consistently by the Company.

### (a) Going concern

The financial statements are prepared in accordance with the going concern concept, which assumes that the Company will continue to operate in the foreseeable future.

### (b) Foreign currency

In preparing the financial statements, transactions in currencies other than the entity's functional currency (foreign currencies) are recognized at the average rate of exchange. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. Non-monetary assets and liabilities that are measured at fair value in a foreign currency are retranslated to the functional currency at the exchange rate at the date when the fair value was determined. Non-monetary items that are measured based on historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Foreign currency differences arising on retranslation are recognized in profit and loss.

Applied exchange rates as at balance sheet date are as follows:

| Currency | 31 December 2012 | 31 December 2011 |
|---|---|---|
| RSD/EUR | 113.7183 | 104.6409 |
| USD/EUR | 1.3196 | 1.2940 |

### (c) Financial instruments

#### */i/ Non-derivative financial assets*

The Company initially recognizes loans and receivables on the date that they are originated. All other financial assets are recognized initially on the trade date, which is the date that the Company becomes a party to the contractual provisions of the asset.

The Company derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in such transferred financial assets that is created or retained by the Company is recognized as a separate asset or liability.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Company has legal right to offset the amounts and intends either to settle them on a net basis or to realize the asset and settle the liability simultaneously.

The Company classifies non-derivative financial assets into the following categories: loans and receivables.

Non-derivative financial assets are classified and measured as follows:

- *Loans and receivables*

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, loans and receivables are measured at amortized cost using the effective interest method, less any impairment losses, except for short term receivables, when the recognition of interest would be immaterial.

Loans and receivables comprise cash and cash equivalents, trade and other receivables and financial investments.

- *Cash and cash equivalents*

Cash and cash equivalents comprise cash on hand and cash held on bank accounts.

***/ii/ Non-derivative financial liabilities***

The Company classifies non-derivative financial liabilities into the other financial liabilities category. Such financial liabilities are recognized initially at fair value less any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortized cost using the effective interest method, except for short term trade and other payables, when the recognition of interest would be immaterial.

Other financial liabilities comprise loans and borrowings and trade and other payables.

***/iii/ Share capital***

Ordinary and preference share capital of the Company is classified as equity.

### (d) Property and equipment

Items of property and equipment were initially measured at cost less accumulated depreciation and any accumulated impairment losses.

Following changes in the Company's ownership (Note 1), the Company elected to measure its property and equipment at revalued amounts, being their fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. The initial appraisal of property and equipment was performed by independent valuators as of 6 June 2006 and the applied valuation methodology for property and equipment was market value and depreciated replacement cost, respectively. Accordingly, positive effects of appraisal were credited to revaluation reserves whereas negative effects were charged to other operating expenses. Deferred tax liabilities incurred upon appraisal were also charged to revaluation

reserves. All additions of property and equipment after 6 June 2006 were recorded at cost. Cost includes expenditure that is directly attributable to the acquisition of the asset.

The subsequent appraisal of property and equipment was performed by independent valuators as of 31 December 2011, and the applied valuation methodology for property and equipment was market value and depreciated replacement cost, respectively. Excess of fair value of land over its carrying amount by EUR 912 thousand was credited to revaluation reserves, while the difference between the fair values of building and equipment being lower than respective carrying amounts by EUR 438 thousand (buildings EUR 85 thousand and equipment EUR 353 thousand) was charged to Other comprehensive income, since previously formed revaluation reserves for these assets were available. Accumulated depreciation was eliminated against cost upon revaluation.

When parts of an item of property and equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment. Any gain or loss on disposal of an item of property and equipment, calculated as the difference between the net proceeds from disposal and the carrying amount of the item, is recognized in profit or loss. When revalued assets are sold, any related amount included in the revaluation reserve is transferred to retained earnings.

Subsequent expenditure is capitalized only when it is probable that the future economic benefits associated with the expenditure will flow to the Company. Ongoing repairs and maintenance is expensed as incurred.

Items of property and equipment are depreciated from the date that they are available for use. Depreciation is calculated to write off the cost of items of property and equipment less their estimated residual values using the straight-line basis over their estimated useful lives. Depreciation is recognized in profit or loss. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Company will obtain ownership by the end of lease term. Land is not depreciated.

The estimated useful lives for the current and comparative year of significant items of property and equipment are as follows:

- Buildings – fixtures 30 - 33 years
- Furniture 6.6 - 10 years
- Other equipment 4 - 10 years

Depreciation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

### (e) Intangible assets

Intangible assets are stated at cost less accumulated amortization. Subsequent expenditure is capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is recognized in profit or loss as incurred. Intangible assets are amortized on a straight-line basis in profit or loss over their estimated useful lives, from the date that they are available for use.

The estimated useful lives for the current and comparative year are from 4 to 10 years.

Amortization methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

**(f) Inventories**

Inventories are measured at the lower of cost and net realizable value. The cost of inventories includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition. The cost of inventories is calculated using the weighted average method.

Net realizable value represents the estimated selling price in the ordinary course of business, less the estimated cost necessary to make the sale.

**(g) Impairment**

***/i/ Non-derivative financial assets***

A financial asset is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset, and that the loss events had an impact on the estimated future cash flows of that asset that can be estimated reliably.

Objective evidence that financial assets are impaired includes default or delinquency by a debtor, restructuring of an amount due to the Company on terms that the Company would not consider otherwise, indications that a debtor will enter bankruptcy, adverse changes in the payment status of borrowers.

The Company considers evidence of impairment for financial assets measured at amortized cost (loans and receivables) at specific asset level. All individually significant assets are assessed for specific impairment.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognized in profit or loss and reflected in an allowance account against loans and receivables. Interest on the impaired asset continues to be recognized. When an event occurring after the impairment was recognized causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

***/ii/ Non- financial assets***

The carrying amounts of the Company's non-financial assets, other than inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. An impairment loss is recognized if the carrying amount of an asset or cash-generating unit (CGU) exceeds its recoverable amount.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU. For impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or CGUs.

Impairment losses are recognized in profit or loss. Impairment losses recognized in respect of cash-generating units are allocated to reduce the carrying amounts of the other assets in the CGU (group of CGUs) on a pro rata basis.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

**(h) Employee benefits**

***/i/ Short-term employee benefits***

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

***/ii/ Other long term employee benefits***

Pursuant to the effective labor regulations, the Company has an obligation to disburse an employee retirement benefit in an amount equal to three average salaries in the Republic of Serbia, in accordance with the latest published data of the Republic of Serbia Statistical Office. The provisions thereof have not been included in the financial statements for the year 2012 based on the management's estimate that such provision is immaterial to these financial statements.

***/iii/ Termination benefits***

Termination benefits are recognized as an expense when the Company is demonstrably committed, without realistic possibility of withdrawal, to a formal detailed plan to either terminate employment before the normal retirement date, or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. Termination benefits for voluntary redundancies are recognized if the Company has made an offer of voluntary redundancy, it is probable that the offer will be accepted, and the number of acceptances can be estimated reliably.

**(i) Provisions**

A provision is recognized if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognized as finance cost.

**(j) Revenue**

Revenue is measured at the fair value of the consideration received or receivable and represents amounts received and receivable for goods and services provided in the normal course of business, net of discounts and value added tax.

At the time when revenue is recognized, the relating expenditure is also recognized (the matching principle).

**(k) Leases**

Assets held by the Company under leases which transfer to the Company substantially all of the risks and rewards of ownership are classified as finance leases. On initial recognition, the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset. Assets held under other than finance leases are classified as operating leases and are not recognized in the Company's statement of financial position.

Payments made under operating lease are recognized in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognized as an integral part of the total lease expense, over the term of the lease. Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

**(l) Finance income and finance cost**

Finance income comprises interest income and foreign exchange gains. Interest income is recognized as it accrues in profit or loss, using the effective interest method.

Finance costs comprise interest expense on borrowings and foreign exchange losses.

Foreign currency gains and losses are reported on a net basis as either finance income or finance cost depending on whether foreign currency movements are in a net gain or net loss position.

**(m) Tax**

Tax expense comprises current and deferred tax. Current tax and deferred tax is recognized in profit or loss except to the extent that it relates to items recognized directly in equity or in other comprehensive income.

Current tax represents an amount calculated and payable under the Serbian Corporate Income Tax Law. The income tax rate for 2012 is 10% (2011: 10%). In accordance with respective amendments of Serbian Corporate Income Tax Law in December 2012, starting from 1 January 2013 applicable income tax rate is 15%. Taxable profit includes the profit shown in the statutory Statement of income and adjustments for permanent differences, as defined by the Serbian Income Tax Law. Such adjustments comprise mainly adding back certain disallowed expenses and deducting certain capital expenditure and investments incurred during the year.

The Serbian Income Tax Law does not allow tax losses of the current period to be used to recover tax previously paid. However, current year losses may be used to decrease taxable profits for future periods of no longer than ten years for losses incurred before 2010, and five years for losses incurred in 2010 and afterwards.

Tax credit is available for investments in fixed assets in the amount 20% of investments. This tax credit can be utilized by up to 50% of calculated income tax. In accordance with aforementioned amendments of Serbian Corporate Income Tax Law, and starting from 1 January 2013, tax credit from investments can be utilized by up to 33% of calculated income tax. Tax credits can be carried forward for ten years.

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized for temporary differences on the initial recognition of assets and liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss.

The measurement of deferred tax reflects the tax consequences that would follow the manner in which the Company expects, at the end of reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted at the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to taxes levied by the same tax authority.

A deferred tax asset is recognized for unused tax losses and tax credits, to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

### (n) New standards and interpretations not adopted

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 January 2012, and have not been applied in preparing these financial statements. Those which may be relevant to the Company are set out below. The Company does not plan to adopt these standards early.

IFRS 13 Fair Value Measurement (2011)

IFRS 13 provides a single source of guidance on how fair value is measured, introduces new disclosure requirements, and replaces the fair value measurement guidance that is currently dispersed throughout IFRS. Subject to limited exceptions, IFRS 13 is applied when fair value measurements or disclosures are required or permitted by other IFRSs. The Company is currently reviewing its methodologies in determining fair values. IFRS 13 is effective for annual periods beginning on or after 1 January 2013 with early adoption permitted.

## 4 DETERMINATION OF FAIR VALUES

Some of the Company’s accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Information about the assumptions made in determining fair values is disclosed in the Note 3d and 11 for property and equipment and Note 21 for financial instruments.

## 5 REVENUE

| In thousands of EUR | 2012 | 2011 |
|---|---|---|
| Rooms | 7,703 | 7,971 |
| Food | 2,336 | 2,417 |
| Beverage | 873 | 988 |
| Rent | 418 | 485 |
| Fitness club | 401 | 440 |
| Other | 665 | 727 |
| **Total** | **12,396** | **13,028** |

## 6 COST OF MATERIALS AND GOODS SOLD

| In thousands of EUR | 2012 | 2011 |
|---|---|---|
| Food | 842 | 848 |
| Raw materials | 293 | 423 |
| Gas | 189 | 194 |
| Electricity | 250 | 283 |
| Cost of goods sold | 163 | 188 |
| Other | 212 | 173 |
| **Total** | **1,949** | **2,109** |

## 7 STAFF COSTS

| In thousands of EUR | 2012 | 2011 |
|---|---|---|
| Gross salaries | 1,801 | 2,002 |
| Temporary staff costs | 357 | 414 |
| Taxes and contributions | 1,049 | 920 |
| Other | 232 | 166 |
| **Total** | **3,439** | **3,502** |

## 8 OTHER EXPENSES

| In thousands of EUR | 2012 | 2011 |
|---|---|---|
| Transportation | 53 | 113 |
| Maintenance | 109 | 92 |
| Software maintenance | 105 | 88 |
| Marketing | 247 | 213 |
| Security | 90 | 106 |
| Entertainment | 146 | 151 |
| Insurance | 95 | 128 |
| Gold passport fees | 166 | 143 |
| Credit cards fees | 113 | 131 |
| Basic management fees | 368 | 389 |
| Incentive fees | 551 | 820 |
| City land tax | 164 | 181 |
| Reservation centre | 154 | 141 |
| Other | 480 | 651 |
| **Total** | **2,841** | **3,347** |

In accordance with the Management Agreement, basic management fee of EUR 368 thousand (2011: EUR 389 thousand) and incentive fee of EUR 551 thousand (2011: EUR 820 thousand) relate to fees incurred to Hyatt International (Europe, Africa, Middle East) Ltd for managing and operating the hotel. Starting from 1 January 2012 and in accordance with respective amendments to the Management Agreement, basis for computation of incentive management fee is gross operating profit of hotel operations only (excluding items such as depreciation, interest) as defined by Management Agreement, after basic management fee and insurance, and applicable percentage is 10% (2011: 15%).

## 9 FINANCE INCOME AND FINANCE COSTS

Financial income relate to:

| In thousands of EUR | 2012 | 2011 |
|---|---|---|
| Interest income | 15 | 42 |
| Foreign exchange gains | 84 | - |
| **Total** | **99** | **42** |

Finance costs relate to:

| In thousands of EUR | 2012 | 2011 |
|---|---|---|
| Interest expenses | 298 | 364 |
| Foreign exchange losses | - | 164 |
| **Total** | **298** | **528** |

## 10 TAXES

### (a) Tax expenses of the period

| In thousands of EUR | 2012 | 2011 |
|---|---|---|
| Current tax | 118 | 136 |
| Deferred tax | 163 | (45) |
| **Total** | **281** | **91** |

### (b) Reconciliation of effective tax rate

| In thousands of EUR | 2012 | 2011 |
|---|---|---|
| Profit before tax | 1,719 | 1,913 |
| Income tax at the statutory tax rate of 10% | 172 | 191 |
| Effects of expenses that are not deductible in determining taxable profit | 68 | 63 |
| Utilized tax credits | (118) | (136) |
| Recognition of previously unrecognized tax credits | - | (142) |
| Derecognition of tax credits | 93 | 135 |
| Other | 66 | (20) |
| **Total** | **281** | **91** |
| Effective tax rate | 16.3% | 4.7% |

### (c) Deferred tax assets and liabilities

| In thousands of EUR | 2012 | 2011 |
|---|---|---|
| **Deferred tax assets** | | |
| Tax credit carry forwards | 568 | 721 |
| **Deferred tax liabilities** | | |
| Temporary differences on property, equipment and intangible assets | (4,133) | (2,746) |
| **Net amount** | **(3,565)** | **(2,025)** |

Increase in deferred tax liability as a result of increase in statutory income tax rate starting from 2013 (Note 3m), in the amount EUR 1,378 thousand was charged against other comprehensive income during 2012 (Note 17).

Tax credits carried forward expire in the following periods:

| Origination year | Expiration year | Total tax credits In thousands of EUR |
|---|---|---|
| 2003 | 2013 | 45 |
| 2004 | 2014 | 93 |
| 2005 | 2015 | 314 |
| 2006 | 2016 | 38 |
| 2007 | 2017 | 23 |
| 2008 | 2018 | 60 |
| 2009 | 2019 | - |
| 2010 | 2020 | 3 |
| 2011 | 2021 | 130 |
| **Total** | | **706** |

Tax credits carried forward relate to credits on investments in fixed assets. Deferred tax asset recognized in the amount EUR 568 thousand relate to tax credits carried forward which originate from the year of 2005 and onwards. Tax credits from the years 2003 and 2004 were derecognized in 2011 and 2012 respectively, because it is not probable that sufficient future taxable profits will be available against which the Company can utilize the benefits.

## 11 PROPERTY, EQUIPMENT AND INTANGIBLE ASSETS

| In thousands of EUR | Land and Buildings | Equipment | Construction in progress | Total | Intangible assets |
|---|---|---|---|---|---|
| **COST / REVALUATION** | | | | | |
| Balance as at 1 January 2011 | 57,971 | 13,163 | 80 | 71,214 | 657 |
| Additions | 400 | 1,592 | - | 1,992 | 72 |
| Disposals | - | - | - | - | (110) |
| Transfers | - | - | - | - | - |
| Revaluation | (17,236) | (11,335) | - | (28,571) | - |
| Other | - | - | (80) | (80) | - |
| **Balance as at 31 December 2011** | **41,135** | **3,420** | **-** | **44,555** | **619** |
| Balance as at 1 January 2012 | 41,135 | 3,420 | - | 44,555 | 619 |
| Additions | 388 | 179 | - | 567 | 51 |
| Disposals | - | - | - | - | - |
| Transfers | - | - | - | - | - |
| Other | - | - | - | - | - |
| **Balance as at 31 December 2012** | **41,523** | **3,599** | **-** | **45,122** | **670** |
| **ACCUMULATED DEPRECIATION AND AMORTIZATION** | | | | | |
| Balance as at 1 January 2011 | 17,038 | 10,416 | - | 27,454 | 449 |
| Charge for the year | 1,025 | 566 | - | 1,591 | 80 |
| Disposals | - | - | - | - | (110) |
| Revaluation | (18,063) | (10,982) | - | (29,045) | - |
| Other | - | - | - | - | (75) |
| **Balance as at 31 December 2011** | **-** | **-** | **-** | **-** | **344** |
| Balance as at 1 January 2012 | - | - | - | - | 344 |
| Charge for the year | 1,066 | 1,118 | - | 2,184 | 65 |
| Disposals | - | - | - | - | - |
| **Balance as at 31 December 2012** | **1,066** | **1,118** | **-** | **2,184** | **409** |
| **Carrying amount** | | | | | |
| **- As at 31 December 2012** | **40,457** | **2,481** | - | **42,938** | **261** |
| **- As at 31 December 2011** | **41,135** | **3,420** | - | **44,555** | **275** |
| **- As at 1 January 2010** | **40,933** | **2,747** | **80** | **43,760** | **208** |

As collateral for the loan (Note 18), the Company placed mortgage on its building property in favor of Markelia Enterprises Company Limited, Nicosia, Cyprus. Carrying amount of property under mortgage as of 31 December 2012 is EUR 30,817 thousand (2011: EUR 31,880 thousand).

Carrying amount of leased equipment as at 31 December 2012 is EUR 43 thousand (2011: EUR 51 thousand), and it relates to vehicle acquired via finance lease.

As at 31 December 2011 appraisal of property and equipment was performed by independent valuators, and the applied valuation methodology for property and equipment was market value and depreciated replacement cost, respectively (Note 3d). Excess of fair value of land over its carrying amount by EUR 912 thousand was credited to revaluation reserves, while the difference between fair values of building and equipment being lower than respective carrying amounts by EUR 438 thousand (buildings EUR 85 thousand and equipment EUR 353 thousand) was charged against revaluation reserves.

Carrying amount that would have been recognized under the cost model is EUR 22,020 thousand for land and buildings and EUR 2,104 thousand for equipment (2011: EUR 24,477 thousand and EUR 2,840 thousand, respectively).

## 12 INVENTORIES

| In thousands of EUR | 2012 | 2011 |
|---|---|---|
| Materials | 82 | 104 |
| Spare parts | 114 | 118 |
| Goods | 112 | 104 |
| **Balance as at 31 December** | **308** | **326** |

## 13 TRADE RECEIVABLES

| In thousands of EUR | 2012 | 2011 |
|---|---|---|
| Domestic trade receivables | 245 | 100 |
| Foreign trade receivables | 10 | 25 |
| Advances to suppliers | 29 | 42 |
| Other receivables | 14 | 25 |
| Allowance for impairment | (2) | - |
| **Balance as at 31 December** | **296** | **192** |

## 14 FINANCIAL INVESTMENTS

Financial investments stated as at 31 December 2011 in the amount of EUR 120 thousand refer to the short term loan approved to related party Excelsior AD Beograd, for the purpose of financing of Excelsior's working capital requirements. This loan was collected during 2012.

## 15 OTHER RECEIVABLES

| In thousands of EUR | 2012 | 2011 |
|---|---|---|
| Prepaid insurance | 59 | 67 |
| Prepaid expenses of software maintenance | 10 | 34 |
| Receivables for un-invoiced income | 64 | 25 |
| VAT receivables | - | 141 |
| Other prepaid expenses | 148 | 29 |
| **Balance as at 31 December** | **281** | **296** |

Other prepaid expenses as at 31 December 2012 in the amount EUR 118 thousand relate to prepaid management fees to Hyatt International.

## 16 CASH AND CASH EQUIVALENTS

| In thousands of EUR | 2012 | 2011 |
|---|---|---|
| RSD accounts | 284 | 506 |
| Accounts in EUR and USD | 913 | 395 |
| Cash in hand | 23 | 40 |
| **Balance as at 31 December** | **1,220** | **941** |

## 17 CAPITAL AND RESERVES

The Company's share capital structure as of 31 December 2012 was as follows:

| | Number of Ordinary Shares | Number of Preference Shares | Total Number of Shares | Thousands of EUR | % of shares |
|---|---|---|---|---|---|
| North Havel Ltd., Hong Kong | 6,968 | 750 | 7,718 | 29,063 | 94.5 |
| Energoprojekt Holding, Beograd | 441 | - | 441 | 1,765 | 5.4 |
| Putnik AD, Beograd | 8 | - | 8 | 32 | 0.1 |
| **Balance as at 31 December** | **7,417** | **750** | **8,167** | **30,860** | **100** |

In 2006 the Company enacted a Resolution with respect to the Homogenization of Shares due to the change in their nominal value (the "Resolution"). In accordance with the Resolution, the individual par value of the Company's shares was EUR 3,778.

Structure of share capital of the Company remained unchanged during the year of 2012.

### (a) Ordinary shares

The subscribed, authorized, issued and fully paid-in capital consists of 7,417 ordinary shares.

The holders of ordinary shares are entitled to receive dividends after any dividends payable to holders of preference shares have been paid, and are entitled to participate and vote at shareholders assembly based on the principle that one share gives the right to one vote.

**(b) Preference shares**

Pursuant to the Resolution of the Shareholders' Assembly in 2004, the long-term liabilities to NIS Jugopetrol, Belgrade were converted. In the amount of the aforementioned debt, the Company issued 750 preference shares, having an individual par value of USD 4,000 as stated at the date of the Resolution. These shares were subject to procedure of share homogenization in 2006 and during 2008 these shares were sold to the majority shareholder.

Holders of preference shares have priority over ordinary shares with respect to payment of dividend, priority with respect to distribution on liquidation of the Company, right to be present and participate in discussions at a shareholders assembly without voting rights and right to access to legal and other documents and information of the Company.

**(c) Reserves**

Reserves in the amount of EUR 16,053 thousand (2011: EUR 17,431 thousand) comprise of:

- former revaluation reserves in the amount EUR 15,662 thousand (2011: EUR 15,662 thousand) that were formed in accordance with the previously-applicable accounting standards and regulations prevailing in the Republic of Serbia and were subsequently transferred to statutory reserves, and

- revaluation reserves from appraisal of property and equipment EUR 391 thousand (2011: EUR 1,769 thousand) relate to revaluation reserves from appraisal of property and equipment (Note 3d). During 2012, as a result of increase in statutory income tax rate (Note 3m), respective increase in deferred tax liability in the amount EUR 1,378 thousand was charged against revaluation reserves (Note 10)

## 18 LOANS AND BORROWINGS

| In thousands of EUR | 2012 | 2011 |
|---|---|---|
| Loan - Markelia Enterprises Company limited | 5,464 | 8,317 |
| Finance lease liabilities | 25 | 37 |
| **Non – current liabilities** | **5,489** | **8,354** |
| Loan - Markelia Enterprises Company limited | 1,487 | 1,518 |
| Finance lease liabilities | 11 | 11 |
| **Current liabilities** | **1,498** | **1,529** |

Terms and conditions of outstanding loans were as follows:

| In thousands of EUR | Interest rate | Currency | 2012 | 2011 |
|---|---|---|---|---|
| Loan - Markelia Enterprises Company limited | LIBOR+3% | USD | 6,951 | 9,835 |
| Finance lease liabilities | 6.3% | EUR | 36 | 48 |
| **Total** | | | **6,987** | **9,883** |

The long-term loan in the amount EUR 6,951 thousand as at 31 December 2012 from Markelia Enterprises Company limited is repaid in monthly installments of USD 164 thousand up to September 2017. Such repayments could be accelerated by means of monthly repayments involving any additional cash available to the Company on or before the fifth day of each successive calendar month during the term of the loan. The aforementioned loan was issued at an annual interest rate equal to the 3-months US LIBOR rate + 3%. The Company provided mortgage lien on its building, registered in favor of Markelia Enterprises Company limited, in order to collateralize the repayment of its long-term borrowings and related interest (Note 11).

## 19 TRADE PAYABLES

| In thousands of EUR | 2012 | 2011 |
|---|---|---|
| Advances received | 42 | 157 |
| Management fees to Hyatt International | - | 68 |
| Payables to domestic suppliers | 58 | 24 |
| Payables to foreign suppliers | 7 | 5 |
| **Balance as at 31 December** | **107** | **254** |

## 20 OTHER CURRENT LIABILITIES AND ACCRUALS

| In thousands of EUR | 2012 | 2011 |
|---|---|---|
| Deferred income membership fees | 146 | 130 |
| Accrued expenses | 202 | 213 |
| Accrual for litigation | 20 | 22 |
| Liabilities for deposits for leased premises | 11 | 20 |
| Other current payables | 8 | 22 |
| **Total** | **387** | **407** |

## 21 FINANCIAL INSTRUMENTS

### (a) Financial risk management

The Company has exposure to the following risks arising from financial instruments: credit risk, liquidity risk, market risk (including foreign currency exchange risk and interest rate risk).

This note presents information about the Company's exposure to each of the above risks, the Company's objectives, policies and processes for measuring and managing risk, and the Company's management of capital.

There is no formal risk management framework implemented in the Company. The Management Board focuses mainly on credit risk, liquidity risk and foreign currency exchange risk and acts on a case basis to mitigate risks and minimize losses.

**(b) Credit risk**

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations. Maximum exposure to credit risk represents carrying amount of related assets at reporting date. Credit risk arises principally from the Company's trade receivables. Taking into account the nature of the Company's business activities and the fact that the Company deals mostly with private individuals the Company's exposure to credit risk is limited.

In addition, the Company does not have material credit risk concentration with reference to receivables, as it has a great number of unrelated customers with individually small amounts of debt.

The structure of trade receivables as of 31 December 2012 and 31 December 2011 is presented in the following table:

| | 2012 | | 2011 | |
|---|---|---|---|---|
| In thousands of EUR | Gross | Provision | Gross | Provision |
| Not past due receivables | 66 | - | 48 | - |
| Receivables overdue 0-30 days | 182 | - | 77 | - |
| Receivables overdue more than 30 days | 7 | (2) | - | - |
| **Total as at 31 December** | **255** | **(2)** | **125** | **-** |

Movements in bad debt provision are presented in following table:

| In thousands of EUR | 2012 | 2011 |
|---|---|---|
| Balance as at 1 January | - | - |
| Provisions for the period | (2) | - |
| **Total as at 31 December** | **(2)** | **-** |

The management believes that impairment provision recorded in these financial statements is sufficient due to historical experience and subsequent settlements of receivables after reporting date and before financial statements are authorized for issue.

**(c) Liquidity risk**

Liquidity risk is the risk that the Company will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset.

The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation.

Responsibility for liquidity risk management rests with the Company and the Management Board, which is responsible for the management of the Company's short, medium and long-term funding and liquidity management requirements. The Company manages liquidity risk by maintaining adequate cash reserves, by borrowing facilities, by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

An overview of maturities of financial liabilities is provided in the tables below:

| In thousands of EUR | Carrying amount as at 31 December | Contractual cash flow | Maturity in 1 to 6 months | Maturity in 6 months to 1 year | Maturity in 1 to 5 years | Maturity in over 5 years |
|---|---|---|---|---|---|---|
| **31 December 2012** | | | | | | |
| Loans | 6,951 | 7,467 | 848 | 836 | 5,783 | - |
| Leases | 36 | 36 | 6 | 6 | 24 | - |
| Accounts payable | 107 | 107 | 107 | - | - | - |
| Accrued expenses | 221 | 221 | 221 | - | - | - |
| **Total** | **7,315** | **7,831** | **1,182** | **842** | **5,807** | **-** |

| In thousands of EUR | Carrying amount as at 31 December | Contractual cash flow | Maturity in 1 to 6 months | Maturity in 6 months to 1 year | Maturity in 1 to 5 years | Maturity in over 5 years |
|---|---|---|---|---|---|---|
| **31 December 2011** | | | | | | |
| Loans | 9,835 | 10,973 | 927 | 913 | 6,825 | 2,308 |
| Leases | 48 | 48 | 5 | 6 | 37 | - |
| Accounts payable | 254 | 254 | 254 | - | - | - |
| Accrued expenses | 255 | 255 | 255 | - | - | - |
| **Total** | **10,392** | **11,530** | **1,441** | **919** | **6,862** | **2,308** |

### (d) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates will affect the Company's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters.

Credit risk and currency risk exposure arises in the course of the Company's regular business operations. Financial instruments are not used for hedging currency and interest rate risks.

#### */i/ Foreign currency risk*

The Company is exposed to currency risk on sales, purchases and financial instruments that are denominated in a currency other than the functional currency, primarily the US Dollars (USD) and Serbian Dinar (RSD). Relevant risk variables are generally all non-functional currencies in which the Company has financial instruments.

The book value of financial assets and liabilities of the Company denominated in foreign currency as of the reporting dates is as follows:

| | Assets | | Liabilities | |
|---|---|---|---|---|
| In thousands of EUR | 31 December 2012 | 31 December 2011 | 31 December 2012 | 31 December 2011 |
| RSD | 865 | 926 | 550 | 302 |
| USD | 43 | 53 | 6,993 | 9,907 |

### /ii/ *Sensitivity analysis*

The following table details the Company's sensitivity to a 10% strengthening of the functional currency against the non-functional currencies RSD and USD at 31 December, which would have affected the measurement of financial instruments denominated in non-functional currencies and impacted equity and profit or loss by the amounts shown below. The analysis assumes that all other variables remain constant. The analysis is performed on the same basis for 2011.

| In thousands of EUR | Profit or loss |
|---|---|
| **31 December 2012** | |
| RSD | (29) |
| USD | 632 |
| **31 December 2011** | |
| RSD | (57) |
| USD | 896 |

Decrease of 10 percent of the functional currency, compared to the listed currencies as at 31 December would have an equal but contrary effect, assuming that all other variables remain constant.

The Company's sensitivity to foreign currency has been primarily driven by USD denominated borrowings. Management has chosen not to hedge this risk.

### /iii/ *Interest rate risk*

The Company is exposed to interest rate risk in respect of cash flows related to interest bearing long-term loan that is linked to variable LIBOR interest rates. The loan obtained at variable interest rates makes the Company's cash flows susceptible to the risk of changes in interest rates. The Company does not hedge this risk. Borrowing with variable interest rate is expressed in foreign currency (USD).

A change of 1 percent point annually in interest rate on long-term borrowing at the end of reporting period would have decreased equity and profit or loss by the amounts shown below. This analysis assumes that all other variables remain constant.

| In thousands of EUR | Profit or loss |
|---|---|
| **31 December 2012** | |
| Cash flow sensitivity | (86) |
| **31 December 2011** | |
| Cash flow sensitivity | (109) |

**(e) Capital management**

There is no formal capital management framework implemented in the Company. The Management Board focuses on capital management on a case basis to mitigate risks and ensure that the Company will be able to continue as a going concern while maximizing the return to stakeholders through the optimization of the debt and equity balance. The capital structure of the Company consists of debt, which includes the long-term borrowings, cash and cash equivalents and equity attributable to equity holders, comprising issued capital, reserves and accumulated loss.

The Company's Management Board reviews the capital structure on as needed basis. As a part of this review the Board considers the cost of capital and the risks associated with each class of capital. Based on this review, the Company will balance its overall capital structure through the further decrease of accumulated loss, payment of dividends, increase in share capital as well as the issue of new debt or the redemption of existing debt. There were no changes in the Company's approach to capital management during the year.

The Company's net debt to equity ratio at the reporting date was as follows:

| In thousands of EUR | 2012 | 2011 |
|---|---|---|
| Total liabilities | 11,151 | 12,612 |
| Less: Cash and cash equivalents | 1,220 | 941 |
| Net debt | 9,931 | 11,671 |
| Equity | 34,153 | 34,093 |
| Ratio net debt to equity | 0.29 | 0.34 |

**(f) Fair values**

The fair values of financial assets and financial liabilities are determined as follows:

The assumption used to estimate current fair values is that the book value of receivables and payables balances approximates to fair value because of their relative short maturities.

The fair value of financial liabilities carried at amortized cost for disclosures purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to Company.

The fair value of financial assets and liabilities together with the carrying amounts shown in the statement of financial position, are as follows:

| | 31 December 2012 | | 31 December 2011 | |
|---|---|---|---|---|
| In thousands of EUR | Carrying amount | Fair value | Carrying amount | Fair value |
| Trade receivables | 255 | 255 | 125 | 125 |
| Other receivables | 64 | 64 | 166 | 166 |
| Financial investments | - | - | 120 | 120 |
| Cash and cash equivalents | 1,220 | 1,220 | 941 | 941 |
| **Financial assets** | **1,539** | **1,539** | **1,352** | **1,352** |
| Long-term liabilities | 5,489 | 5,065 | 8,354 | 7,684 |
| Accounts payable | 107 | 107 | 254 | 254 |
| Accrued expenses | 221 | 221 | 255 | 255 |
| Current portion of long-term liabilities | 1,498 | 1,651 | 1,529 | 1,804 |
| **Financial liabilities** | **7,315** | **7,044** | **10,392** | **9,997** |

## 22 CONTINGENT LIABILITIES AND COMMITMENTS

**Lawsuits**

As of 31 December 2012, the Company is a defendant in ten lawsuits.

The most important court cases relate to:

- case involving NIS a.d. in respect of regulating the use of mutual parking space. In this court case the Company, based on the opinion of the Company's lawyers, should not have any financial implications, but the ramifications of the case could impact the number of parking spots and their availability, and

- case involving former owners of the land on which the hotel is located as plaintiffs, and parties NIS, BMP, RAD and City of Belgrade. Namely, respective law (the Law on the Manner and Conditions for Recognizing Right and Return of Land That Had Entered Social Ownership Based on the Agricultural Land Fund) entitles former owners to receive compensation from ultimate users of the land, in the amount of the land's market value. Ministry of Finance enacted the decision in 2005, which specified the right of the former owners to compensation and the obligation of ultimate users of the land, with BMP being one of them, to pay such compensation. In 2006 the Supreme Court ruled in favor of the appeal (filed by BMP, NIS and City of Belgrade), and reversed the aforementioned decision of the Ministry of Finance. The court case is now conducted by the respective Committee (Committee for Proceedings and Adoption of Decision Based on Request for Return of Land of the New Belgrade municipality). In the repeated court proceedings the lawyers of the Company expect that the Committee will acknowledge the position of the Supreme Court and that the portion of the compensation, which should be paid by BMP, will be charged to the City of Belgrade and the Republic of Serbia.

During these proceedings and before the Supreme Court of Serbia issued its ruling, BMP engaged a court expert to perform the valuation of the municipal construction land (part of land registry lot 2317 and 2309/1 in New Belgrade, with an area of 2,521 square meters). In opinion dated 29 January 2006 the court expert set the value of this land at EUR 1,205 thousand. Management believes that land value as defined in 2006 appropriately reflects its current market value. Provision in respect of this court case has not been recorded in financial statements for 2012, based on the opinion of Company's lawyers and management that negative outcome is not probable.

The total value of other legal proceedings filed against the Company amount to EUR 26 thousand, without potential penalty interest. The Company recognized potential obligations arising from such litigation in the amount of EUR 20 thousand, whereas the Company's management assesses that the Company will not be exposed to materially significant losses with respect to aforementioned proceedings.

## 23 RELATED PARTY TRANSACTIONS

In addition to the parent company and minority shareholders the Company's related parties include other companies within Lampsa Hellenic Hotel Group. As of 31 December 2012 and 31 December 2011 the balances and transactions with related parties relate to intercompany loan disclosed in Note 14, long-term borrowings disclosed in Note 18, interest expense disclosed in Note 9 and fees charged to Excelsior AD Beograd included within Other revenue in Note 5. Namely, starting from January 2012, and in accordance with respective agreement, BMP is charging for its services provided to Excelsior AD Beograd (managing the hotel operations and managing and planning hotel renovation).

Balances with related parties included in Statement of Financial Position:

| In thousands of EUR | 2012 | 2011 |
|---|---|---|
| Financial investment – loan granted to Excelsior AD Beograd (Note 14) | - | 120 |
| Long term loan payable to Markelia Enterprises Company Limited (Note 18) | (6,951) | (9,835) |

Income and expenses in transactions with related parties included in Statement of Comprehensive Income:

| In thousands of EUR | 2012 | 2011 |
|---|---|---|
| Fees charged to Excelsior AD Beograd | 129 | - |
| Interest income on loan granted to Excelsior AD Beograd | 1 | 5 |
| Interest expense on long term loan payable to Markelia Enterprises Company Limited | 296 | 362 |

Gross salaries paid to key management during the year of 2012 amount to EUR 789 thousand (2011: EUR 873 thousand), and represent amounts paid to General Director, General Manager of the Hotel, Director of finance and other departmental directors.

## 24 SUBSEQUENT EVENTS

There are no subsequent events that impact these financial statements for 2012 or that require separate disclosure.