

TRANSLATION

Excelsior a.d. Beograd

**Financial Statements
for the year ended 31 December 2012
with Independent Auditor's Report thereon**

Belgrade, March 2013

FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2012
WITH INDEPENDENT AUDITOR'S REPORT THEREON

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TRANSLATION

Independent Auditors' Report

TO THE SHAREHOLDERS OF
EXCELSIOR A.D., BEOGRAD

We have audited the accompanying financial statements of Excelsior a.d. Beograd ("the Company"), which comprise the balance sheet as at 31 December 2012, the income statement, statement of changes in equity and cash flow statement 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 true and objective presentation of these financial statements in accordance with the applicable Law on Accounting and Auditing 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 applicable Law on Accounting and Auditing of the Republic of Serbia and 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 preparation and true and objective presentation of financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements present truly and objectively, in all material respects, 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 the applicable Law on Accounting and Auditing of the Republic of Serbia.

Belgrade, 28 March 2013

KPMG d.o.o. Beograd

(L.S.)

Ivana Manigodić
Certified Auditor

This is a translation of the original Independent Auditors' Report issued in the Serbian language. All due care has been taken to produce a translation that is as faithful as possible to the original. However, if any questions arise related to interpretation of the information contained in the translation, the Serbian version of the document shall prevail.

Belgrade, 28 March 2013

KPMG d.o.o. Beograd




Ivana Manigodić
Certified Auditor

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31 DECEMBER 2012
(thousands of RSD)

	Note	<u>2012</u>	<u>2011</u>
OPERATING INCOME			
Sales	5	132,651	111,964
Other operating income	6	1,570	1,417
		<u>134,221</u>	<u>113,381</u>
OPERATING EXPENSES			
Cost of materials	7	(17,349)	(15,954)
Staff costs	8	(15,145)	(17,742)
Depreciation and amortization	9	(21,384)	(20,394)
Other operating expenses	10	(48,671)	(34,902)
		<u>(102,549)</u>	<u>(88,992)</u>
PROFIT (LOSS) FROM OPERATIONS			
		<u>31,672</u>	<u>24,389</u>
Finance income	11	5,657	22,365
Finance expenses	11	(33,658)	(31,302)
Other income		649	80
Other expenses		(225)	(96)
PROFIT (LOSS) BEFORE TAX			
		<u>4,095</u>	<u>15,436</u>
Income taxes:			
Income tax expense		358	-
Deferred tax income (expense)	12	4,418	(1,007)
PROFIT (LOSS) FOR THE YEAR			
		<u><u>8,155</u></u>	<u><u>14,429</u></u>

The notes on pages 7 to 30 form an integral part of these Financial Statements.
Independent Auditor's Report – pages 1 – 2.

BALANCE SHEET AS AT 31 DECEMBER 2012
(thousands of RSD)

	Note	31 December 2012	31 December 2011
ASSETS			
Non-current assets			
Intangible assets	13	543	606
Property and equipment	14	752,618	750,095
Long-term financial investments	15	11,279	7,591
		764,440	758,292
Current assets			
Inventories	16	2,835	681
Accounts receivable	17	2,191	1,625
Cash and cash equivalents	18	8,183	10,693
Value added tax and prepayments	19	15,102	17,986
		28,311	30,985
Deferred tax assets	12	5,019	4,135
Total assets		797,770	793,412
EQUITY AND LIABILITIES			
Equity			
Share capital	20	77,312	77,312
Reserves	20	456,877	480,272
Retained profit	12	22,584	14,429
Accumulated losses		(41,688)	(41,688)
		515,085	530,325
Long-term borrowings	21	187,283	167,671
Current liabilities			
Short-term borrowings	22	16,489	39,004
Accounts payable	23	5,398	2,736
Other current liabilities and accruals	24	2,767	2,788
		24,654	44,528
Deferred tax liabilities	12	70,748	50,888
Total equity and liabilities		797,770	793,412

General Manager Christoph Bruckner has approved the Financial Statements.

Belgrade, 14 March 2013

Excelsior a.d. Beograd

Christoph Bruckner
General Manager

The notes on pages 7 to 30 form an integral part of these Financial Statements.
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CASH FLOW STATEMENT FOR 2012
(thousands of RSD)

	2012	2011
Operating activities		
Cash receipts from customers	143,118	123,061
Other cash received from operating activities	1,772	1,582
Cash paid to suppliers	(55,315)	(46,393)
Cash paid to and on behalf of employees	(15,145)	(17,742)
Interest paid	(12,036)	(11,261)
Other duties paid	(5,735)	(5,367)
<i>Net cash used in operating activities</i>	56,659	43,880
Investing activities		
Purchases of intangible assets, property and equipment	(35,807)	(40,305)
Other	(2,775)	(1,155)
<i>Net cash used in investing activities</i>	(38,582)	(41,460)
Financing activities		
Net proceeds from borrowings	(20,587)	(32,016)
<i>Net cash provided by financing activities</i>	(20,587)	(32,016)
Net increase/(decrease) in cash and cash equivalents	(2,510)	(29,596)
Foreign exchange differences	-	(906)
Cash and cash equivalents, beginning of year	10,693	41,195
Cash and cash equivalents, end of year	8,183	10,693

The notes on pages 7 to 30 form an integral part of these Financial Statements.
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STATEMENT ON CHANGES IN EQUITY FOR 2012
(thousands of RSD)

	Share Capital	Revaluation Reserves	Accumulated Losses	Retained profit	Total
Balance 1 January 2011	77,312	480,272	(41,688)	-	515,896
Profit for the year	-	-	-	14,429	14,429
Balance, December 31, 2011	<u>77,312</u>	<u>480,272</u>	<u>(41,688)</u>	<u>14,429</u>	<u>530,325</u>
Balance 1 January 2012	77,312	480,272	(41,688)	14,429	530,325
Decrease in current year	-	(23,395)	-	-	(23,395)
Profit for the year	-	-	-	8,155	8,155
Balance 31 December 2012	<u>77,312</u>	<u>456,877</u>	<u>(41,688)</u>	<u>22,584</u>	<u>515,085</u>

The notes on pages 7 to 30 form an integral part of these Financial Statements.
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1 FOUNDATION AND ACTIVITY

Hotelijersko akcionarsko društvo za hotelske, ugostiteljske i turističke usluge „Excelsior“ a.d., Beograd (hereinafter: the Company), was founded on 2 November 1993.

Based on the agreement on the sale of socially owned capital dated 27 February 2008 through public auction, 70% of socially owned capital was sold to Eteria Ellinkon Ksenodohion Lampsa AE, Athens, Greece.

The Company's core commercial activity is the hotel business, catering and tourist services. Headquarters of the Company are in Belgrade, 5 Kneza Milosa Street.

The tax identification number is 100279522, while the registration number is 06934218. As at 31 December 2012 the Company has 16 employees (31 December 2011: 16 employees).

2 BASIS FOR PREPARATION AND PRESENTATION OF FINANCIAL STATEMENTS**2.1 Statement of compliance**

The Company keeps its records and prepares financial statements in accordance with the requirements of the Law on Accounting and Auditing of the Republic of Serbia (Official Gazette of the Republic of Serbia 46/2006, 111/2009) and other regulations applicable in the Republic of Serbia.

In accordance with the requirements of the Law on Accounting and Auditing legal entities and entrepreneurs incorporated in the Republic of Serbia are required to prepare and submit financial statements in conformity with the prevailing legislation and professional rules, which include the Framework for the Preparation and Presentation of Financial Statements ("Framework"), International Accounting Standards ("ISA") and International Financial Reporting Standards ("IFRS"), as well as the related interpretations representing integral part of these standards, but without related basis for conclusion, illustrative examples, guidelines, comments, dissenting opinions, developed materials and other additional material.

The amendments to IAS and translation of newly-issued IFRS and the related interpretations issued by the International Accounting Standards Board („IASB“) and the International Financial Reporting Interpretations Committee („IFRIC“) up to 1 January 2009, were officially adopted pursuant to a Decision enacted by the Ministry of Finance No. 401-00-1380/2010-16 and published in the Official Gazette of the Republic of Serbia 77/2010. The amendments and newly-issued IFRS and related interpretations, after this date, have not been translated and published, and were not used in the preparation of these financial statements.

The accompanying financial statements are presented in the format prescribed under the "Guidelines on the Prescribed Form and Content of the Financial Statements for Companies, Cooperatives, Other Legal entities and Entrepreneurs" (Official Gazette of the Republic of Serbia 114/2006, 5/2007, 119/2008 and 2/2010, 101/2012, 118/2012), which differ in form and substance from those defined under the provision of the revised IAS 1 "Presentation of Financial Statements" that is effective for all annual periods beginning on 1 January 2009.

2.2 Rules of measurement

Financial statements have been prepared on the historical cost basis, except for property and equipment (Note 3.5)

2.3 Official reporting currency

The financial statements of the Company are stated in thousands of dinars (RSD) which are the Company's functional currency and the official reporting currency for financial statements in the Republic of Serbia. Unless otherwise indicated, all amounts are stated in dinars rounded to the nearest thousandth.

2.4 Use of estimates

The presentation of financial statements demands of the management to use best possible estimates and reasonable assumptions which affect reported amounts of assets and liabilities, as well as to disclose potential receivables and liabilities on the day of preparation of financial statements and income and expenses during the reporting period. These estimates and assumptions are based on previous experience and on information available on the day of preparation of financial statements, which seem realistic and reasonable under the given circumstances. Based on such assumptions estimates are made of the value of assets and liabilities which cannot be determined using other information. Actual values of assets and liabilities can differ from amounts determined in this way.

Estimates, including assumptions based on which estimates are made, are continuously reviewed. Revised accounting estimates are reported in the period when revised, if the change in estimate only affects the given reporting period, or in the period in which the change in estimate occurred and in subsequent reporting periods, if the change in estimate affects current and future reporting periods.

Information on areas in which estimation levels are highest and that can have the most significant effect on amounts recognized in the Company's financial statements are presented in the following notes:

- Note 3.4 and 3.5 –Useful life of intangible assets, property and equipment.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Company consistently applies adopted accounting policies to all reporting periods presented in the accompanying financial statements.

3.1 Going concern

The financial statements are prepared under the going concern assumption which presupposes that the Company will continue to operate into the foreseeable future.

For the year ended 31 December 2012 the Company reported a net profit in the amount of RSD 8,155 thousand (2011: RSD 14,429 thousand).

Company management carried out hotel refurbishment over the past four years, thus increasing the Hotels bookings and related revenues. Management expects revenue growth to continue.

3.2 Foreign currency transactions

Foreign currency transactions are translated into dinars at the middle exchange rate set on the Interbank foreign currency market ruling on the day of transaction.

Monetary items denominated in foreign currencies as at balance sheet date are translated into dinars at the foreign exchange rate set on the Interbank foreign currency market ruling at the balance sheet date. Non-monetary items are translated into dinars at the medium exchange rate ruling on transaction date.

Foreign exchange gains and losses resulting from effected payments and collections in foreign currencies during the year, and foreign exchange gains and losses resulting from translation of assets and liabilities denominated in foreign currencies as at balance sheet are reported in the Company's income statement as foreign exchange gains/losses.

Receivables and payables with built-in currency clause are translated into dinars at the contracted exchange rate effective on balance sheet date. Resultant foreign exchange gains and losses are reported in the Company's income statement, including income/expenses from change in the value of assets and liabilities.

Official exchange rates of significant foreign currencies were as follows:

Currency	2012	2011
EUR	113.7138	104.6409

3.3 Financial instruments*Classification*

The Company classifies its financial assets into the following categories: loans and receivables and assets held to maturity. The classification depends on the purpose for which the financial assets have been acquired. Management classifies financial placements at the moment of initial recognition.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except where their maturities are longer than 12 months after balance sheet date. In such case they are classified as long-term assets.

Receivables comprise domestic and foreign trade receivables and other receivables.

Trade receivables are stated at amount billed by supplier, net of discounts and allowance for impairment of uncollectible amounts based on the assessment of collectability of receivables. An allowance is made for receivables for which objective evidence of impairment exists and for which management estimates that collection of the full amount is no longer probable, where it is charged to the Income statement when the estimation is made.

Cash and cash equivalents

In the statement of cash flows, cash and cash equivalents relate to cash on hand, and funds held in accounts with banks.

Financial assets held to maturity

Financial assets held to maturity are non-derivative financial instruments with fixed and determinable payment schedules and a fixed date of maturity that management has the intention and ability to hold to maturity. In the event that the Company decides to sell a significant portion of its financial assets held to maturity, the entire category will be reclassified as available for sale. Financial assets held to maturity are classified as long-term assets, except when maturities are shorter than 12 months as of balance sheet date, when they are classified as short-term assets.

Recognition of financial assets

The purchase and sale of financial assets or liabilities is recorded in accordance with appropriate accounting treatment on transaction date.

Measurement of financial assets

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

Loans and receivables, including financial assets held to maturity, are measured at amortized cost using the effective interest rate method.

Derecognition of financial assets

The Company derecognizes a financial asset when the right to cash receipts associated with such asset expire or when they are transferred to a third party. Any rights associated with transferred financial assets, created or retained by the Company, are recognized as a separate asset or liability.

Measurement at amortized cost

The amortized cost of a financial asset is the amount at which the asset is initially measured, reduced for principal repayment, and increased or decreased for accumulated amortization using the effective interest rate method.

Measurement at fair value

The fair value of financial instruments is the amount at which an asset can be exchanged or a liability settled, between informed and willing parties in an independent transaction.

Fair value is determined using available market information on reporting date, as well as other valuation models used by the Company.

The fair value of individual financial instruments reported at nominal value approximates their carrying amount. Such instruments include cash, as well as receivables and liabilities with no date of maturity, or contractual fixed interest rate.

Other receivables and liabilities are carried at present value of discounted future cash flows using current interest rates. Management believes that as the result of the nature of the Company's operations and its business policies, there are no significant differences between the carrying amount and fair value of financial assets and liabilities.

Impairment of financial assets

The Company measures impairment of doubtful receivables based on estimated losses that could arise as the result of customers' inability to make required payments. In estimating appropriate amounts of impairment losses for doubtful receivables, the Company relies on aging structure, previous experience with write-offs, customer's creditworthiness and changes in payment terms. This requires estimates to be made of customer behavior and resultant future cash payments. The actual amount of receivables that are collected can differ from estimated collection, which could differ from estimated collection levels that could have a positive or negative impact on the company's financial performance.

All receivables that are deemed uncollectible are provisioned in full in the amount of matured but uncollected receivables.

The decision on direct write-off or impairment of trade receivables through the allowance for impairment account is made by the Company's general manager.

Write-off of trade receivables is performed under the condition that receivables were previously recognized within income, where the receivable in the Company's books is written off as uncollectible, and where the Company could not collect it through court proceedings. The decision on direct write-off of trade receivables is made by the Company's general manager.

Financial liabilities

Financial liabilities are initially recognized at cost which represents the fair value of compensation receive. After initial recognition financial liabilities are reported at amortized cost using the effective interest rate method, except for financial liabilities at fair value through profit and loss. Amortized cost of financial liabilities is the amount at which liabilities are initially measured, reduced for principal repayments, and increased or decreased for accumulated amortization using the effective interest rate method.

Financial liabilities include liabilities for loans taken from banks and related parties. A liability is short-term if it is expected that it will be settled in the ordinary course of the Company's business cycle and matures within a period of 12 months after balance sheet date. All other liabilities are classified as long-term.

Loans with a contractual foreign currency clause are converted into their equivalent value in dinars of the foreign currency principal outstanding. Gains and losses arising on the foreign currency clause are reported in the balance sheet as financial income or expenses, or as other income and expenses for revaluation effects from indexing of loans to the consumer price index.

The Company derecognizes liabilities when a liability is settled, reversed or transferred to a third party.

Operating liabilities

Trade payables and other operating liabilities are measured at face value.

3.4 Intangible assets

Intangible assets are identifiable non-monetary assets without physical substance, such as accounting software. For these assets there is a likelihood that over a period of one year they will generate economic benefits that exceed their cost.

Intangible assets are initially recognized at cost. After initial recognition, intangible assets are stated at cost less accumulated amortization and impairment losses, if any.

Subsequent costs of investment in intangible assets can be capitalized only under the condition that future economic benefits can be expected from the asset they relate to. All other costs represent costs of the period in which they occurred.

Amortization of intangible assets commences in the month in which the intangible asset is available for use. The amortization base is the cost of an intangible asset less its residual value. If residual value is not materially significant, it is not taken into account for amortization purposes and does not reduce the amortization base.

Amortization method, useful life and residual value are reviewed at the end of each reporting period and whenever necessary, appropriate adjustments are made.

In compliance with IAS 38, Company management, reviewed the useful lives of intangible assets at the end of 2009 and concluded that previous useful lives were not assigned realistically, and the Decision was issued by the General Manager for adjusting remaining useful lives. Applied depreciation rates before and after valuation were 10-20% and 10-24% respectively.

Such reviews of useful lives of fixed assets have no effect on previous reporting periods and are not applied retroactively.

3.5 Property and equipment

Property and equipment are reported at cost reduced for accumulated depreciation and impairment losses. Initial recognition of an item of property and equipment is at cost. Cost comprises all expenses that are directly attributable to a purchased asset.

With a view to reducing the value of property and equipment to its fair market value the Company engaged an independent certified valuator to perform the valuation of property and equipment on 28 February 2008, where positive effects of valuation were reported under revaluation reserves. Valuation of property and equipment was based on the market value approach.

The expenditure for an item of property and equipment is recognized as an asset if, and only if it is probable that future economic benefits associated with the item will flow to the entity and the cost of the item can be measured reliably. Additions during the year are recorded at cost. Cost represents price billed by suppliers together with all costs incurred in bringing new assets into use.

In accordance with adopted accounting policy, at each balance sheet date, the Company's management reviews the carrying amounts of the Company's tangible and intangible assets. 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 the impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying value, the carrying amount of the asset is

reduced to its recoverable amount, being the higher of the asset's net selling price and value in use. The impairment loss is recognized as the amount of the difference, charged to expenses.

Gains on the sale of property and equipment are posted directly to other income. Losses on the sale or disposal of property and equipment is charged to expenses.

Depreciation of property and equipment is provided on a straight-line basis using depreciation rates that are intended to write off the cost or valuation of property and equipment in equal annual amounts during their useful life. Depreciation of assets activated during the year is calculated when assets are placed into use, or in the month in which an asset is available for use.

Depreciation rates used in the current and previous accounting periods were as follows:

Description	Estimated useful life in years	Estimated useful life in years
	2012	2011
Buildings	33	33
Computer equipment	4.16	4.16
Vehicles	6.6	6.6
Furniture and other equipment	6.6	6.6

Estimates of the useful life of property and equipment are based on previous experience with similar assets, as well as on anticipated technical development and changes impacted by a significant number of economic and industrial factors. The adequacy of a particular useful life is examined annually or when there is indication that significant changes occurred that represented the basis for assigning duration of useful life.

Depreciation method, useful life and residual value are reviewed at the end of each reporting period and whenever necessary, appropriate adjustments are made.

In compliance with IAS 16, Company management, reviewed the useful lives of fixed assets at the end of 2009 and concluded that previous useful lives were not assigned realistically, and the Decision was issued by the General Manager for adjusting remaining useful lives.

Such reviews of useful lives of fixed assets have no effect on previous reporting periods and are not applied retroactively.

3.6 Inventories

Inventories are primarily stated at the lower of cost and net realizable value. Net realizable value is the price at which inventories may be sold in the normal course of business, after allowing for costs to sell.

Cost of raw materials and materials comprises invoiced value billed by supplier. The calculation of issued inventories is performed at the average weighed cost.

Damaged goods inventories and inventories that do not meet quality criteria are fully impaired. Impairment of inventories is performed for materials and raw materials.

3.7 Employee benefits*Short-term employee benefits – taxes and contributions for mandatory social insurance*

In accordance with regulations effective in the Republic of Serbia, the Company is required to pay contributions to various social security funds. These obligations include contributions charged to employees and charged to employer in amounts that are calculated using rates prescribed by law. The Company is required by law to withhold calculated contributions from the employee's gross salary and to make payments of withheld amounts on the employee's behalf to appropriate state funds. Contributions charged to employee and charged to the employer are recognized as period expenses in the period they relate to.

Long-term employee benefits – retirement benefits and jubilee awards

In accordance with the Collective Individual Employment Contract, the Company is required to pay employees retirement benefits upon retirement that amount to 3 average salaries of the employee earned in the month prior to payment of retirement benefits, where such benefits cannot be lower than three average salaries paid in the Republic of Serbia in the month which precedes the month of payment of retirement benefits.

According to Company estimates, the amount of the liability for retirement benefits as at 31 December 2012 is not materially significant, as a result of which the Company did not accrue the said liabilities as at balance sheet date.

Besides this, the Company can adopt the decision on jubilee award payment at the recommendation of the employees' union.

The Company does not have its own pension funds, nor does it have share based payment options and did not identify any such liabilities as at 31 December 2012.

Short-term paid leave

Accumulated paid leave can be transferred and used in subsequent periods, if not fully used in the current period. Expected costs of paid leave are recognized in the amount of accumulated unused entitlements at balance sheet date, for which it is expected that they will be used in a subsequent period. For paid leave which has not been accumulated, the liability or cost are not recognized until such time as the paid leave is actually used.

According to estimates by Company management, the amount of short-term paid leave as at 31 December 2012 is not materially significant, as a result of which the Company did not accrue the said liabilities as at balance sheet date.

3.8 Provisions

Provisions are recognized when the Company has a legal or constructive obligation resulting from a past event and when it is probable that the settlement of such obligation will result in the outflow of assets that generate economic benefits.

3.9 Equity

The Company's equity comprises share capital, revaluation reserves and accumulated losses/retained earnings.

3.10 Revenues*Income from sales and provision of services*

Income from the sale of goods and services is recognized when significant risks and benefits resulting from ownership of products and goods are transferred to the buyer. Income from the sale of products and goods is reported at the invoiced amount reduced for approved discounts and value added tax.

Income from the provision of services is recognized in the reporting period in which the service is provided at invoiced amount reduced for approved discounts and value added tax.

Financial income

Financial income relates to income from interest, foreign exchange gains and other financial income.

Interest income is recognized in the income statement in the period when occurred.

Other income

Other income includes: collected written-off receivables and corrections of smaller, materially insignificant errors from previous year and other income.

3.11 Expenses

Income is recognized in the income statement based on the principle of occurrence of income and expenses or on accrual basis and is reported in the period when occurred.

Operating expenses

Operating expenses comprise all cost and expenses arising on invoiced sales including cost of goods sold, costs of material, energy and fuel, gross salaries, services provided by third parties and depreciation. Operating expenses also include general overheads such as marketing, insurance, bank charges, tax and other expenses incurred in current accounting period.

Financial expenses

Financial expenses comprise costs of interest and foreign exchange losses and other financial expenses. Interest expense relates to interest accrued on loans received which is reported in the income statement it relates to, in accordance with the principles of accrual accounting.

Other expenses

Other expenses include: expenses for damage incurred to guest and other expenses.

3.12 Income tax*Current income tax*

Taxation is based on the Corporate Income Tax Law of the Republic of Serbia. The corporate income tax rate is 10% and is applied to taxable profit reported in the tax balance. Corporate income tax reported in the tax balance comprises profit reported in the income statement, adjusted in accordance with the Corporate Income Tax Law of the Republic of Serbia. The amount of tax thus calculated and reported in the tax return is reduced for tax credits and tax incentives.

In accordance with the Corporate Income Tax Law of the Republic of Serbia, tax credits are recognized in the amount equal to 40% of the investment in property and equipment made by a company which is classified as a small enterprise, while for other legal entities 20% of the investment is recognized, and can be used for setting off against future current tax liability in the amount that cannot exceed 70% or 50% of current tax liability up to the amount of tax payable in the year in which the investment was made. The unused portion of the tax credit can be used to reduce tax payable in subsequent periods up to ten years.

The tax regulations in the Republic of Serbia do not envisage that any tax losses of the current period can be used to recover taxes paid within a specific carry back period. However, any current year losses may be used to reduce or eliminate taxes to be paid in future periods, but only for a duration of no longer than five years for losses occurred in 2010 and after, while for losses realized up to 2009 they cannot be used for longer than 10 years.

Deferred income taxes

Deferred income taxes are provided for the temporary differences arising between the tax bases of assets and liabilities and their carrying values in the financial statements, determined in accordance with the accounting regulations of the Republic of Serbia. The currently-enacted tax rates or the substantively-enacted rates at the balance sheet date are used to determine the deferred income tax amount. Deferred tax liabilities are recognized on all taxable temporary differences. Deferred tax assets are recognized for all deductible temporary differences, and the tax effects of income tax losses and credits are available for carry forward, 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 carry forwards can be utilized.

Current and deferred taxes are recognized as income and expenses and are included in the net profit for the year, except for amounts of deferred tax arising on revaluation of property and equipment, and that are reported under revaluation reserves.

3.13 Earnings per share

Net profit for 2012 amounted to RSD 8,155 thousand, with the number of common shares amounting to 77,312, which means that earnings per share amounted to RSD 0.1055 thousand.

4 FINANCIAL RISK MANAGEMENT

In the ordinary course of business, the Company is exposed to a different extent to a variety of financial risks:

- market risk,
- liquidity risk and
- credit risk.

The Company's overall risk management focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Company's financial performance.

4.1 Market risk**a) Foreign currency risk**

The Company is exposed to foreign currency risk arising from various currency exposures, resulting from transactions in different currencies, primarily with respect to the EUR. The risk originates from financial assets and liabilities denominated in foreign currency and/or with a foreign currency clause. To the extent possible, the Company minimizes foreign currency risk by minimizing its open foreign currency position.

The table below presents the Company's exposure to foreign currency risk as at 31 December 2012:

In thousands of RSD	EUR	RSD	Total
Cash and cash equivalents	6,815	1,368	8,183
Receivables	1,680	511	2,191
Long-term financial investments	11,279		11,279
Other receivables		15,102	15,102
Total	19,774	16,981	36,755
Short-term financial liabilities	16,489		16,489
Operating liabilities		5,398	5,398
Long-term liabilities	187,283		187,283
Other liabilities		2,768	2,768
Total	203,772	8,166	211,938
Net foreign currency position			
As at 31 December 2012	(183,998)	8,815	(175,183)

The table below presents the Company's exposure to foreign currency risk as at 31 December 2010:

In thousands of RSD	EUR	RSD	Total
Cash and cash equivalents	9,937	756	10,693
Receivables	867	758	1,625
Long-term financial investments	7,591		7,591
Other receivables		17,986	17,986
Total	18,395	19,499	37,894
Short-term financial liabilities	39,004		39,004
Operating liabilities		2,736	2,736
Long-term liabilities	167,671		167,671
Total	206,675	2,736	209,411
Net foreign currency position			
As at 31 December 2011	(188,280)	16,763	(171,517)

b) Interest rate risk

The Company is exposed to various risks that affect its financial position and cash flows as the result of effects of fluctuations in market interest rates. The Company's operations are exposed to interest rate changes to the extent that interest bearing assets (including investments) and interest bearing liabilities mature at different times or in different amounts.

The table below presents the Company's exposure to interest rate fluctuations:

	2012	2011
Fixed interest rate instruments		
Financial assets	8,183	10,693
Financial liabilities	-	-
	8,183	10,693
Variable interest rate instruments		
Financial assets	11,279	7,591
Financial liabilities	(203,772)	(206,675)
	(192,493)	(199,084)

Given that the Company does not hold significant interest bearing assets, the Company's income and cash flows are largely independent of market interest rates. The Company's exposure to the risk of changes in fair value of interest rates arises primarily from loan liabilities toward banks. Loans are approved at variable interest rates and expose the Company to interest rate risk related to cash flows. During 2012 loan liabilities had variable interest rates linked to the EURIBOR.

The Company analyses interest rate risk exposure on a dynamic basis, taking into consideration alternative sources of financing and refinancing, above all for long-term liabilities, given that they represent the most significant interest bearing line item. Risk management activities are intended to optimize net interest expenses, under the condition that market interest rates are at a level that reflects the Company's business strategy.

4.2 Liquidity risk

Liquidity risk is the risk that the Company will be unable to finance assets with appropriate sources of financing in terms of maturities and rates, and the risk of impossibility of realizing an asset at a reasonable price in an appropriate timeframe.

The Company manages liquidity risk with the objective of ensuring available sources of financing for settling liabilities as they fall due. The Company continually assesses liquidity risk by identifying and monitoring changes in the sources of financing required for meeting the Company's business objectives, in accordance with the Company's business strategy.

The Company has access to various sources of financing that include:

Short-term and long-term loans.

The table below presents the maturities of assets and liabilities according to the remaining time to maturity, as at 31 December 2012:

In thousands of RSD	Up to 3 months	From 3 months to 1 year	1 to 5 years	Over 5 years	Total
Cash and cash equivalents	8,183	-	-	-	8,183
Receivables	2,191	-	-	-	2,191
Long-term financial investments	-	-	-	11,279	11,279
Other receivables	-	15,102	-	-	15,102
Total	10,374	15,102	-	11,279	36,755
Short-term financial liabilities	-	16,489	-	-	16,489
Operating liabilities	5,398	-	-	-	5,398
Long-term liabilities	-	-	187,283	-	187,283
Other liabilities	-	2,768	-	-	2,768
Total	5,398	19,257	187,283	-	211,938
Liquidity gap as at 31 December 2012	4,976	(4,155)	(187,283)	11,279	(175,183)

The table below presents the maturities of assets and liabilities according to the remaining time to maturity, as at 31 December 2011:

In thousands of RSD	Up to 3 months	From 3 months to 1 year	1 to 5 years	Over 5 years	Total
Cash and cash equivalents	10,693	-	-	-	10,693
Receivables	1,625	-	-	-	1,625
Long-term financial investments	-	-	-	7,591	7,591
Other receivables	-	17,986	-	-	17,986
Total	12,318	17,986	-	7,591	37,894
Short-term financial liabilities	-	39,004	-	-	39,004
Operating liabilities	2,736	-	-	-	2,736
Long-term liabilities	-	-	105,788	61,883	167,671
Other liabilities	-	-	-	-	-
Total	2,736	39,004	105,788	61,883	209,411
Liquidity gap as at 31 December 2011	9,582	(21,019)	(105,788)	(54,292)	(171,517)

4.3 Credit risk

Credit risk is the risk of occurrence of financial losses for the Company as the result of client or counterparty delays in settling contractual liabilities. Credit risk primarily arises from cash and cash equivalents, deposits with banks and financial institutions, and outstanding receivables from companies and individuals and commitments.

The Company is exposed to credit risk with protection against credit risk being provided by undertaking specific measures and activities at the level of the Company.

The Company uses the following collection mechanisms: compensation with other companies, filing court claims, out-of-court settlements, etc.

As at 31 December 2012 the Company holds cash and cash equivalents in the total amount of RSD 8,183 thousand (31 December 2011: RSD 10,693 thousand), which according to management estimates represents the maximum amount of credit risk associated with these financial assets.

Trade receivables

The Company's maximum amount of credit risk exposure associated with trade receivables, by geographic regions, is provided in the table below:

In thousands of RSD	2012	2011
Trade receivables – domestic	444	349
Trade receivables – foreign	1,680	867
Total	2,124	1,216

Provisions

The aging structure of trade receivables is provided in the table below:

In thousands of RSD	Gross 2011	Provision 2011	Gross 2012	Provision 2012
Unmatured receivables	1,216	-	2,127	-
Overdue 0 to 30 days	-	-	-	-
Overdue 31 to 60 days	-	-	-	-
Overdue 61 to 90 days	-	-	-	-
Overdue 91 to 120 days	-	-	-	-
Overdue 121 to 360 days	-	-	-	-
Overdue more than 360	-	-	3	3
Total	1,216	-	2,127	3

4.4 Capital risk management

The Company has adopted a financial capital concept and its maintenance pursuant to which capital has been defined on the basis of nominal cash units.

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern for an indefinite period into the foreseeable future, in order to maintain an optimal capital structure, while ensuring dividends for its shareholders. In order to safeguard or correct capital structure, the Company has the following options at its disposal: correction of dividend payments to shareholders, return of capital to shareholders, issuing of new shares or sale of assets in order to reduce debts.

The Company monitors capital based on the gearing ratio which is calculated as the ratio between the Company's net amount of loan liabilities and its total equity.

As at 31 December 2012 and 2011 the Company's gearing ratio was as follows:

In thousands of RSD	2012	2011
Total loan liabilities	282,687	263,088
Less: Cash and cash equivalents	(8,183)	(10,693)
Net amount owed	274,504	252,395
Total equity	515,084	530,323
Gearing ratio	0.53	0.48

*Net amount owed is arrived at by reducing total loan liabilities, exclusive of equity, with cash and cash equivalents.

**Total equity is equity reported in the balance sheet.

***The gearing ratio is the ratio between net amount owed and total equity.

4.5 Fair value

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

The fair value of financial assets reported at amortized cost is calculated by discounting cash flows using an interest rate at which the Company could get long-term loans, and that corresponds to the effective interest rate. The Company believes that the reported amounts of receivables, after decreases for allowances for impairment, as well as the face value of operating liabilities, approximates their market value. The fair value of loan liabilities is estimated by discounting future cash flows using the current market interest rate available to the Company for similar financial instruments. Such fair value does not differ significantly from the value at which loan liabilities are reported in the Company's books. Management holds that amounts disclosed in the accompanying financial statements reflect values that are the most accurate and useful under the given conditions for reporting purposes.

5 SALES

In thousands of RSD	2012	2011
Hotel accommodation income	113,279	94,852
Sale of food	14,535	14,106
Daily accommodation	1,259	1,145
Other	3,578	1,861
Total	132,651	111,964

6 OTHER OPERATING INCOME

In thousands of RSD	2012	2011
Rental income	1,490	1,341
Total	1,490	1,341

7 COST OF MATERIALS OR COST OF GOODS SOLD

In thousands of RSD	2012	2011
Costs of food, beverage and other restaurant materials	8,410	6,413
Maintenance and cleaning materials	3,000	4,175
Electrical energy	2,732	2,471
Heating	3,207	2,895
Other costs		
Total	17,349	15,954

8 SALARIES, SALARY COMPENSATION AND OTHER PERSONNEL EXPENSES

In thousands of RSD	2012	2011
Gross salaries	7,989	10,579
Taxes and contributions on salaries and salary compensation charged to employer	1,432	1,155
Costs of contract fees	3,739	5,016
Other personnel expenses	1,985	992
Total	15,145	17,742

9 DEPRECIATION AND PROVISIONS

In thousands of RSD	2012	2011
Depreciation		
Property, plant and equipment	21,321	20,387
Intangible assets	63	7
Total	21,384	20,394

10 OTHER OPERATING EXPENSES

In thousands of RSD	2012	2011
Postal and transportation services	2,053	1,871
Maintenance and cleaning	1,192	2,216
Advertising and promotion	27	451
Utilities	1,133	858
Water charge	733	528
Sanitary	132	68
Security and on the job protection	273	310
Other services	2,292	2,582
Consulting and legal advice	22,280	5,816
Entertainment expense	283	57
Insurance premiums	293	1,317
Bank charges	6,670	1,207
Guest arrival costs – reservation system	5,182	4,120
Memberships	-	30
Indirect taxes and contributions	3,670	3,474
Municipal construction land fee	2,055	1,893
Other non-operating expenses	403	8,104
Total	48,671	34,902

11 FINANCIAL INCOME AND EXPENSES

In thousands of RSD	2012	2011
Financial income		
Interest income	148	157
FX gains	5,509	22,208
Total	5,657	22,365
Financial expenses		10,752
Interest expense	11,774	
Interest expense with respect to related party BMP	262	509
FX losses	21,622	20,041
Total	33,658	31,302

12 INCOME TAX**a) Income tax components**

In thousands of RSD	2012	2011
Current tax expense	(358)	-
Deferred tax income/(expense)	4,418	(1,007)
Total tax income/(expense) of the period	4,060	(1,007)

b) Reconciliation of current income tax and profit before tax and prescribed income tax rate

In thousands of RSD	2012	2011
Profit before tax	4,095	15,436
Income tax at 10%	409	1,543
Tax effect of disallowed expenses in the tax balance	1,283	1,286
Tax losses carried forward from previous periods	(499)	(2,829)
Current tax expense reported in tax balance	1,193	-
<i>Deferred tax effects</i>		
Tax credit for investments in fixed assets in current year	835	-
Effects of changes in deferred tax assets and liabilities	(4,418)	1,007
Total income tax reported in tax balance – tax income/(expense)	(4,060)	1,007
<i>Effective tax rate</i>	<i>n/a</i>	<i>6.52%</i>

c) Deferred tax assets/liabilities

In thousands of RSD	2012	2011
Deferred tax assets		
Tax losses for carry forward	-	499
Tax credits for carry forward	5,019	3,636
Total	5,019	4,135
Deferred tax liabilities		
Opening balance	50,888	51,784
Temporary differences on property and equipment at a rate of 15%	22,394	
Temporary differences on property and equipment	(2,534)	(896)
Total	70,748	50,888
Deferred tax liabilities, net amount	(65,729)	(46,753)

13 INTANGIBLE ASSETS

Movements in intangible assets are presented in the following table:

<u>In thousands of RSD</u>	Licenses and software	Intangible assets under construction	Other intangible assets	Total
Cost or valuation				
Balance as at 1 Jan. 2011	782	-	-	782
Additions	-	-	-	-
Disposals	-	-	-	-
Transfer from/to	-	-	-	-
Other	-	-	-	-
Balance as at 31 Dec. 2011	782	-	-	782
Accumulated amortization				
Balance as at 1 Jan. 2011	176	-	-	176
Amortization for 2012	63	-	-	63
Sale/disposal	-	-	-	-
Balance as at 31 Dec. 2012	239	-	-	239
Net book value as at 31 December 2012	606	-	-	606
Net book value as at 31 December 2011	543	-	-	543

14 PROPERTY AND EQUIPMENT

Movements in property and equipment are presented in the table below:

<u>In thousands of RSD</u>	Land	Buildings	Equipment	Investments under construction and advances	Total
Cost or valuation					
Balance as at 1 Jan. 2012	200,786	597,333	18,075	80	816,274
Additions	-	5,969	3,639	14,282	23,890
Disposal/sale	-	-	-	-	-
Transfer from/to	-	96	-	(96)	-
Other/advance for equipment	-	-	-	-	-
Balance as at 31 Dec. 2011	200,786	603,398	21,714	14,266	840,164
Accumulated depreciation					
Balance as at 1 Jan. 2012	-	59,161	7,018	-	66,179
Depreciation for 2011	-	18,012	3,355	-	21,367
Sale/disposal	-	-	-	-	-
Balance as at 31 Dec. 2012	-	77,173	10,373	-	87,546
Net book value as at 31 December 2011	200,786	538,172	11,057	80	750,095
Net book value as at 31 December 2012	200,786	526,225	11,341	14,266	752,618

Based on the loan agreement with NBG-London Bank, a first order mortgage has been taken out according to land registry records for the following property:

A commercial building without assigned commercial activity, with ground floor plus 7 floors, located in 5 Kneza Miloša in Belgrade, on land lot number 4939, number of a portion of the lot on which the building is located under 1, registered in the list of real-estate property number 2807, KO Vračar. The present value of pledged buildings amounts to RSD 526,225 thousand as at 31 December 2012.

15 LONG-TERM FINANCIAL INVESTMENTS

Long-term financial investments in the amount of RSD 11,279 thousand relate to term deposits deposited with Vojvodjanska banka, acting as agent for the loan granted by the NATIONAL BANK OF GREECE SA (Note 21). These funds will remain as a term deposit for the duration of the loan period.

16 INVENTORIES

In thousands of RSD	2012	2011
Materials	446	34
Spare parts		
Tools and fittings	1,954	33
<i>Less: Allowance for impairment</i>		
Advances given for inventories	435	
<i>Less: Allowance for impairment</i>	-	
Balance as at 31 December	2,835	68

17 RECEIVABLES

In thousands of RSD	2012	2011
Trade receivables		
Trade receivables – domestic	444	349
Trade receivables – foreign	1,679	867
<i>Less: Allowance for impairment</i>		
	2,123	1,216
Other receivables from operations		
Receivables from employees	70	404
Other current receivables	-2	5
<i>Less: Allowance for impairment</i>		
Balance as at 31 December	2,191	409
Receivables for overpaid construction land fees	-	-
Balance as at 31 December	2,191	1,625

18 CASH AND CASH EQUIVALENTS

In thousands of RSD	2012	2011
Current account	256	756
Special purpose funds	1,112	893
Foreign currency account	6,815	9,044
Other funds deposited	-	-
Balance as at 31 December	8,183	10,693

19 VALUE ADDED TAX AND PREPAYMENTS AND DEFERRED EXPENSES

In thousands of RSD	2012	2011
Value added tax	14,849	17,944
Other	158	42
Balance as at 31 December	15,007	17,986

20 BASIC CAPITAL AND RESERVES

The Company's basic capital consists entirely of common shares. As at 31 December 2011 share capital comprises 77,311 common shares with a face value of RSD 1,000.00. All issued shares have been paid in full.

The majority owner of the Company is LampsA AE, Athens, Greece with 70.8% ownership interest and voting rights.

Share capital structure as at 31 December 2011 is as follows:

Shareholder	Number of shares	In thousands of RSD	%
LampsA AE, Athens, Greece	54,757	54,758	70.79%
Other shareholders - private individuals	22,555	22,554	29.21%
Total	77,312	77,312	100.0%

The Company's reserves in the amount of RSD 456,877 thousand (2011: RSD 480,272 thousand) relate to revaluation reserves resulting from the valuation of property and equipment (Note 3.5).

21 LONG-TERM LIABILITIES

<u>In thousands of RSD</u>	<u>2012</u>	<u>2011</u>
Long-term loans from banks	203,772	194,118
<i>Less: Current maturities of long-term liabilities</i>		
- long-term loans from banks	(16,489)	(26,447)
- long-term finance lease liabilities	-	-
Balance as at 31 December	<u>187,283</u>	<u>167,671</u>

Long-term loans comprise:

<u>In thousands of EUR and RSD</u>	<u>EUR</u>	<u>2012</u>	<u>2011</u>
NATIONAL BANK OF GREECE SA LONDON BRANCH		203,77	194,11

Long-term loans have been granted to the Company with repayment periods up to 2018, at annual interest of EURIBOR +3.5%. Repayment is carried out in quarterly installments. Initially the loan was approved for the amount of EUR 1,235 thousand with repayment in 2015. On 29 March 2010 an agreement was signed with the National Bank of Greece SA and Vojvodjanska banka a.d. specifying increase in loan amount to EUR 2,200 thousand and extension of loan period to 2017. With a new annex to the agreement, the loan repayment date was extended to 2018.

22 SHORT-TERM FINANCIAL LIABILITIES

<u>In thousands of RSD</u>	<u>2012</u>	<u>2011</u>
Current portions due of long-term loans	16,489	26,447
Short-term loan from Beogradsko Mesovito Preduzece – related party	0	12,557
Balance as at 31 December	<u>16,489</u>	<u>39,004</u>

The short-term loan granted by the related party Beogradsko Mesovito Preduzece a.d. is at interest amounting to LIBOR + 300 percentage points. The loan was repaid in 2012.

23 OPERATING LIABILITIES

In thousands of RSD	2012	2011
Trade payables – domestic	5,137	2,736
Advances received for products and services	262	-
Balance as at 31 December	5,399	2,736

24 ACCRUALS

In thousands of RSD	2012	2011
Accrued expenses	2,288	2,688
Balance as at 31 December	2,288	2,688

25 RELATED PARTY TRANSACTIONS

In the ordinary course of business the Company has related party transactions. Transactions between the Company and its related parties are regulated by contract and are transacted at market terms. Related party transactions are presented under relevant Notes to the Financial Statements (Note 22 – Short-term liabilities and Note 11 – Financial income and expenses, and Note 10 – Other operating expenses).

26 CONTINGENT LIABILITIES

Land and buildings as at 31 December 2012 reported in the amount of RSD 727,011 thousand are in the Company's ownership, based on denationalization of property from an earlier period. The majority owner, based on the Agreement on Purchase of Socially Owned Capital concluded with the Serbian Privatization Agency, is aware of the fact that property held by the Company includes nationalized property and agrees that nationalized property will be treated in compliance with the law which will regulate this issue. Company management holds that the Company will not suffer any losses as the result of regulation of nationalized property and that there will not be any outflows of assets in this respect.

27 SUBSEQUENT EVENTS

There are no subsequent events that require separate disclosure.

In Belgrade, 31 December 2012

Person responsible for preparing
the financial statements

Lidija Lončar, Accountant

L.S.

Legal Representative
General Manager

Christoph Bruckner