

ANNUAL MANAGEMENT REPORT

**OF “MARINA CAPE MANAGEMENT” Ltd. , SOFIA
for 2017**

The present Management report on the Company's activity is prepared in compliance with the clauses of Art. 33, para 1 of the Accountancy Law. This financial report is audited by Mr Dafin Sredkov, a registered auditor with Diploma No. 518.

1. Information about the Company:

"Marina Cape Management" is a limited liability company with only one owner, incorporated in 2006 and registered in the Commercial Register to the Registry Agency with UIC 175158218.

The Company's capital is in the amount of BGN 5 000, distributed into 50 equal stakes each with nominal value of BGN 100.

The owner of the Company's capital is "Intercapital Property Development" ADSIC, registered in the Commercial Register to the Registry Agency with UIC 131397743 with seat in Sofia and registered address: Sredets District, 7A Aksakov Str., fl. 4.

2. Overview of the Company's activity:

The main activity of the Company pursuant to its constitutive act is: maintenance and management of real estate properties; renting of real estate properties; consulting and brokerage services; development and management of catering establishments, offering traditional Bulgarian, European and Asian (including Pakistani, Thai and Indian) cuisine; construction, equipment and management of sports and recreational centers offering exotic Asian treatments and therapies for relaxation and recovery, and any other commercial activity not prohibited by the law.

"Marina Cape Management" EOOD is a servicing company of "Intercapital Property Development" ADSIC pursuant to the Law on the special purpose vehicles. It carries out the exploitation of the properties constructed by the parent company. In 2017 the Company's activity includes servicing of the apartments in the "Marina Cape" vacation complex and operation of the retail space in the complex.

The management address of the Company is in Sofia, Sredets District, 7A Aksakov Str., fl. 4.

The average annual number of the Company's personnel for 2017 is 35 employees.

3. Results from the Company's activity:

The net financial result from the activity of "Marina Cape Management" EOOD for 2017 is positive – the Company realized a net profit in the amount of BGN 245 thousand. The main economic indicators of the Company are as follows:

Indicators (in BGN '000)	2017	2016
Net revenues from sales	3 571	1 904
Main operating expenses	3 132	1 769
Profit (loss) before interest and tax (EBIT)	439	135
Net financial expenses	-155	-120
Extraordinary revenues	-	-
Profit (loss) before tax	284	15
Net profit (loss)	245	9

The Company has realized the following revenues from its activity:

Revenues (in thousand BGN)	2017	2016
From sale of finished goods	211	259
From sale of goods for sale	210	236
From sale of services	1 608	1 357
From other sales	1 542	52
Financial revenues	-	-
Extraordinary revenues	-	-
Total:	3 571	1 904

The operating revenues of “Marina Cape Management” EOOD in 2017 may be divided into two main fields: revenues from exploitation of the commercial properties in the “Marina Cape” vacation complex (incl. restaurants, pool bar, spa and sports centers, conference centre, shops, etc.) and from providing services to owners and tenants in the complex (incl. maintenance of the real estate properties, renting, etc.).

In 2017, the revenues from exploitation of the commercial properties in the “Marina Cape” vacation complex (incl. restaurants, pool bar, spa centre, fitness centre, bowling hall, squash centre, shops and other food and entertainment establishments) amount to BGN 469 thousand compared to BGN 565 thousand in 2016. The company continually seeks to optimize the ratio of sales price - costs. Conference Center in the complex functioned actively by regularly hosting events of a conference type. The company plans to develop this type of tourism.

The revenues from renting apartments (incl. apartments – owned by “Intercapital Property Development” ADSIC and apartments – owned by external persons) for 2017 amount to BGN 483 thousand, compared to BGN 530 thousand in 2016. The gross result of the Company from that activity in 2017 is a profit in the amount of BGN 377 thousand, compared to BGN 371 thousand in 2016.

The revenues from providing maintenance of property and representation of homeowners in the residential complex “Marina Cape” (incl. “Intercapital Property Development ADSIC”) are in the amount of BGN 975 thousand, including BGN 953 thousand from maintenance and BGN 22 thousand from representation. In comparison, the revenues from maintenance of property and representation of homeowners in 2016 amount to BGN 644 thousand, including BGN 633 thousand from maintenance and BGN 11 thousand from representation. Revenues from maintenance fees are paid by the owners of apartments in the holiday resort of the subsidiary and service company “Marina Cape Management” EOOD. “Marina Cape Management” EOOD is a company which signs contracts with all customers who have purchased apartments in residential complex “Marina Cape” for maintenance and management for annual fee of EUR 12 per square meter. The gross result of the Company from that activity in 2017 is in the amount of BGN 813 thousand.

The revenues from providing by “Marina Cape Management” EOOD transporting services to tourist in the complex and additional cleaning can be referred to the field “revenues from providing services to owners and tenants in the “Marina Cape” vacation complex. These revenues are in the amount of BGN 14 thousand.

In 2017 “Marina Cape Management” EOOD has realized also revenues from providing Internet services, providing safes for storage of belongings of tourists, etc.

In the past year, the company generated "other revenues" amounting to BGN 1 542 thousand, which in essence represent revenue from written liabilities of the company to its counterparties due to the expiration of a limitation period.

The Company's expenses are as follows:

Expenses (in thousand BGN)	2017	2016
For materials	249	273
For external services	1 100	899
For salaries and social security	248	178
For depreciation	63	75
Book value of sold assets (excluding finished goods)	169	154
Change in the inventories of finished goods and work-in-progress	150	121
Other expenses	1 153	69
Financial expenses	155	120
Total:	3 287	1 889

The expenses for external services include the fee that "Marina Cape Management" EOOD pays to the parent company pursuant to the Contract for management of the commercial and residential areas in the "Marina Cape" vacation complex. In compliance to that Contract "Intercapital Property Development" ADSIC receives 70% of the profit which "Marina Cape Management" EOOD realizes from the commercial and residential properties which the subsidiary directly exploits.

The expenses for external services in 2017 include the fee that "Marina Cape Management" EOOD pays to „Blacksea Retail Invest" AD (with previous name "Aheloy Imo 2014" EAD) pursuant to the Contract for management of the commercial areas in the "Marina Cape" vacation complex. In compliance to that Contract „Blacksea Retail Invest" AD receives 70% of the profit which "Marina Cape Management" EOOD realizes from the commercial properties that „Blacksea Retail Invest" AD owns, and which "Marina Cape Management" EOOD directly exploits.

Financial indicators of the Company

	2017	2016
1. Profitability ratio of the net revenues from sales	6,86%	0,47%
2. Profitability ratio of the shareholders' equity	68,63%	8,04%
3. Revenue efficiency ratio	0,92	0,99
4. Overall liquidity ratio	1,20	1,23
5. Quick liquidity ratio	0,93	1,01
6. Absolute liquidity ratio	0,04	0,08
7. Financial independence ratio	0,07	0,017
8. Debt ratio	13,74	56,18

In 2014 „Marina Cape Management" EOOD was selected for a member of the Board of Directors of two new companies „Aheloy Imo 2014" EAD, UIC 203174990 (new name „Blacksea Retail Invest" AD) and „Aheloy Imo" AD, UIC 203175277. In September 2017, Marina Cape Management EOOD was dismissed as a member of the Board of Directors of

Blacksea Retail Invest AD pursuant to a decision of the General Meeting of Shareholders of the Company. During the past year, "Marina Cape Management" EOOD has not received remuneration as a member of the governing bodies of the above two companies.

4. Information about the important events that have occurred after the date of the annual financial report

No important events in the activity and the development of "Marina Cape Management" EOOD have occurred following the date of the annual financial report.

5. Expected future development of the Company in 2018

In 2018 the management of the firm expects an increase in the revenues generated by the Company. The complex is recognizable among tourists (including domestic and foreign visitors) and there is an expectation for the increase in the number of visitors in 2018 despite Turkey's return to the tourist markets, which suggests an outflow of Russian tourists from Bulgaria. In 2018 for the first time Bourgas will meet groups of several new markets and only in April there will be an increase in the tourist flow of over 10%. It is also important that the tourist industry has developed tourist individual packages, and Primorsko, Burgas, Pomorie and Nessebar have prepared their cultural programs since March - for the period March - October inclusive. According to experts, the cultural and historical tourism in Burgas has great potential for development, as well as the balneological, which is a competitive advantage of the resort "Marina Cape" due to its proximity to Bourgas

In addition it should be pointed out that the "Marina Cape" vacation complex is exploited through the whole year. In the winter season 2016-2017, 2 of the 4 restaurants in the complex were functioning as well as the bowling hall, the spa centre, the fitness centre and the squash courts. For renting out to tourists – casual or organized visitors, minimum 100 apartments have been maintained. This practice shall continue in the winter season 2017-2018.

6. Research and development activity:

The Company does not invest in research and development. At this stage the Company's management does not plan to allocate resources for such activities.

7. Management

As of 31.12.2017 the Company is managed by Radostina Krалеva Panteleeva. She was entered in the Commercial Register to the Registry Agency at the company's file as a manager of the Company on 14.11.2017 under number 20171114124228 according to a decision of the sole owner of the capital "Intercapital Property Development" ADSIC from 08.11.2017. Previously, the company was managed and represented by Nikolay Handjiev, from 09.06.2016 to 14.11.2017.

8. The existence of branches of the Company

The Company has no branches registered for the purpose of its business.

9. Relationships with controlled, related and controlling companies

9.1. Controlled companies

Since 04.11.2009 "Marina Cape Management" EOOD has been the owner of 100% of the capital of "Marina Cape Tours" EOOD. Up to that date "Marina Cape Tours" EOOD has been owned entirely by "Intercapital Property Development" ADSIC. "Marina Cape Tours"

EOOD has a tour-operator license and deals with sale of night packages and other tourist services in the “Marina Cape” vacation complex.

9.2. Controlling companies

“Intercapital Property Development” ADSIC holds 100% of the capital of “Marina Cape Management” EOOD. This company exercises management and coordinating activities.

10. Financial instruments

As of 31.12.2017 the company has not used financial instruments in order to hedge the financial, credit and liquidity risk and the risks of the cash flow. During 2017 the company has not concluded transactions with financial instruments.

11. Information by Art. 187 d and 247 of the Commercial Law

11.1 Information by Art. 187 d for deals with own stocks

During 2017 “Marina Cape Management” Ltd. has not acquired or transferred own stocks.

11.2 Total remuneration, received during the year by the Governor Company.

During 2017 the acting manager of “Marina Cape Management” Ltd Radostina Panteleeva has received gross remuneration in the amount of BGN 1.

During 2017 Nicolay Handjiev, a manager of “Marina Cape Management” Ltd till 14.11.2017, has received gross remuneration in the amount of BGN 8.

11.3 The acquired, owned and transferred stocks by the manager of “Marina Cape Management” Ltd. during the year 2017

At the time of writing this report, the manager Radostina Panteleeva does not hold stocks in "Marina Cape Management" EOOD.

11.4 Manager’s rights to acquire shares of the Company.

The articles of association of the company “Marina Cape Management” Ltd does not provide any privileges or restrictions for managers to acquire stocks of the company.

11.5 Participation of managers in companies as general partners, possession of more than 25 percent of the capital of another company, as well as their participation in the management of other companies or cooperatives as procurators, managers or board members

Radostina Panteleeva

As of 31.12.2017 he does not participate in the management / supervisory bodies of companies, unless those stated below:

- “MARINA CAPE TOURS” OOD – UIC 175331773 – manager

As of 31.12.2017 Radostina Panteleeva owns more than 25% of the capital of the following companies:

· “BG Invest Properties” AD – UIC 201811805 – owns 30% of the capital of the company.

11.6 Information by Art. 240 b of the Commercial Law

During 2017 the Company has not entered into transactions under Art. 240b of the Commercial Law, contracts with managers and related parties that go beyond its usual activity or substantially deviate from market conditions.

12. Risk management policy of the Company

Financial risk management

In its operating activity the Company is exposed to various financial risks: market risk (including currency risk, price risk, interest rate risk), credit risk, liquidity risk and risk from changes in the future cash flows. The Company’s program for complete risk management is focused on the unpredictability of the financial markets and seeks to minimize the potential adverse effects on the Company’s financial result. As of the end of the reporting period the Company has not used derivative financial instruments in order to hedge particular risk exposures.

Market risk

Currency risk

The Company operates in Bulgaria and due to the fact that the Bulgarian currency is effectively pegged to the Euro, it is exposed to currency risk due to borrowing and purchases and sales denominated in currencies other than BGN and EUR. The Company carefully observes the currency risks in order to ensure effective risk management.

Price risk

In the conditions of extremely high competition on the Bulgarian tourist market the Company is exposed to significant price risk and that’s why it leads active policy management which includes two main areas – reducing the expenses and increasing the revenues by broadening the range of the offered services and reducing the prices.

Firstly, the Company seeks to minimize the fixed costs as well as to exert strict control over the variable costs (incl. active management of the number of the employed personnel through the different seasons of the year and of the expenses for salaries). In order to achieve higher utilization of the Company’s assets, part of the commercial properties in the complex have been rented out for management to big retail chains which offer high quality end products. The Company has concluded a contract with a third party for mutual managing of the seaside in front of the complex which reduces the additional costs for the maintenance of the beach. The Company maintains a dynamic pricing policy depending on the occupancy of the vacation complex during the relevant tourist seasons aiming to improve the work with its suppliers and subcontractors.

In order to ensure a greater predictability of the revenues as well as in order to optimize the Company’s assets and personnel, the Company has been actively working on the organization of conference type events. This is part of the Company’s measures to make up for the competitive advantages that the traditional hotels working with tour operators have and which can rely on higher regularity and predictability of the revenues compared to the apartment complexes such as “Marina Cape”.

The policy of the Company to increase the revenues from tourist services includes: reducing the prices; conducting an active marketing strategy and offering accommodations at price levels that are more attractive than those in the hotels of the most serious competitor of the Bulgarian tourist markets – Turkey; broadening of the range of the offered services and enhancing the quality; conducting an aggressive price policy with regard to the facilities outside the complex to retain customers within the complex (e.g. by issuing a "cash cards", which on one side allow the clients to avail themselves of price discounts and on the other side – improve the financial accountability and reduce the expenses related to the documentation).

Interest rate risk

As the Company does not own a substantial quantity of interest-bearing assets, the income and the operating cash flows are not significantly influenced by changes in the market interest rates.

The interest rate risk results from the loans received. The loans with a floating interest rate expose the Company to an interest rate risk related to changes in the future cash flows. The loans with a fixed interest rate expose the Company to an interest rate risk related to fluctuations in determining fair values in the future.

The Company's policy is to conclude loan contracts with an interest rate which is fixed to the market one, for example EURIBOR, and the expositions to be regularly observed.

As of 29.03.2018 the Euribor interest rates are negative and are represented in the following table:

	28-03-2018
Euribor - 1 week	-0.38%
Euribor - 2 weeks	-0.38%
Euribor - 1 month	-0.37%
Euribor - 2 months	-0.34%
Euribor - 3 months	-0.33%
Euribor - 6 months	-0.27%
Euribor - 9 months	-0.22%
Euribor - 12 months	-0.19%

Credit risk

The credit risk results from cash and cash equivalents, derivative financial instruments and deposits in banks and other financial institutions, as well as from credit expositions of wholesalers and retailers, including non-paid receivables and contracted economic operations. For banks and other financial institutions can be accepted only independently assessed institutions with a high credit rating. When performing sales of goods and services and granting credits to clients the Company focuses on the contractors' credit reputation.

Liquidity risk

The cautious liquidity risk management involves maintaining a large enough quantity of money and liquid securities as well as options for additional credit financing and closing open market positions. Due to the dynamic nature of the main types of business the Company's financial department aims at flexibility in financing through maintaining enough non-used authorized credit lines.

12. Responsibilities of the Company's management

In compliance with the Bulgarian legislation the management shall prepare financial report for each financial year which shall present true and accurate information about the

financial condition of the Company as of the end of the year, its financial results and cash flows.

The management of the Company confirms that it has applied adequate accounting policies in the preparation of the annual financial report as of 31.12.2017 and that it has made reasonable and prudent judgments, assumptions and estimates.

The management confirms also that it has observed the current accounting standards and that the financial report is prepared on the basis of the going concern principle.

The management of the Company is responsible for the proper keeping of the accounting records, for the adequate reporting of the assets and for the undertaking of the necessary measures to prevent and detect potential abuses or other irregularities.

Sofia
28 March 2018

Manager: Radostina Panteleeva