

# Financial Report

## INTERCAPITAL PROPERTY DEVELOPMENT ADSIC

31<sup>st</sup> December 2017

## Report for the financial condition

	Notes	31.12.2017 ‘000 BGN	31.12.2016 ‘000 BGN
<b>Assets</b>			
<b>Non-current assets</b>			
Property, plant and equipment	4	13 100	12 307
Investment property	5	26 699	35 637
Investment in subsidiaries	7	5	5
Other receivables	9	447	893
Non-current assets		<b>40 251</b>	<b>48 842</b>
<b>Current assets</b>			
Work-in-progress	9	328	1 056
Trade accounts receivables	10	3 356	4 538
Advance payments	11	3	228
Receivables from related parties	33	2 701	2 918
Other receivables	12	571	642
Cash and cash equivalents	13	14	34
Current assets		<b>6 973</b>	<b>9 416</b>
<b>Total assets</b>		<b>47 224</b>	<b>58 258</b>

Date: 12.03.2018

Drafted: \_\_\_\_\_  
/Optima Audit AD/

Executive Director: \_\_\_\_\_  
/Velichko Klingov/

According to an audit report: \_\_\_\_\_  
/Nicolay Polinchev/

## Report for the financial condition

	Notes	31.12.2017 ‘000 BGN	31.12.2016 ‘000 BGN
<b>Shareholders' equity</b>			
Share capital	14	6 011	6 011
Issue premiums		7 651	7 651
Revaluation reserve		5 963	5 115
General reserves		1	1
Undistributed profit		9 632	9 632
Uncovered loss		(25 381)	(25 254)
Current profit/loss		96	(127)
Total shareholder's equity		<b>3 973</b>	<b>3 029</b>
<b>Liabilities</b>			
<b>Non-current liabilities</b>			
Liabilities to financial institutions	15	16 095	-
Bonds	16	-	3 912
Financial leasing	8,10	1 442	1 530
Other liabilities	22	-	-
Total non-current liabilities		<b>17 535</b>	<b>5 442</b>
<b>Current liabilities</b>			
Liabilities to financial institutions	15	386	23 446
Bonds	16	4 407	978
Financial leasing	10	366	275
Liabilities to suppliers and customers	17	1 446	4 359
Customers` advance receivables	18	5 189	7 783
Short-term liabilities to related parties	33	2 830	3 045
Tax payables	19	130	75
Social security payables and salaries payables	20	121	141
Other liabilities	21	10 711	9 685
Total current liabilities		<b>25 586</b>	<b>49 787</b>
<b>Total liabilities</b>		<b>43 251</b>	<b>55 229</b>
<b>Total shareholder's equity and liabilities</b>		<b>47 224</b>	<b>58 258</b>

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## Comprehensive Income Statement

	Notes	31.12.2017 '000 BGN	31.12.2016 '000 BGN
Revenue from sales	22	3 726	380
Other revenue	23	15 023	2 468
Expenses for materials	24	(53)	(57)
Expenses for external services	25	(556)	(398)
Expenses for salaries	26	(40)	(40)
Expenses for depreciation	6	(54)	(54)
Other expenses	27	(2 321)	(482)
Change in the inventories of finished goods and work in progress	28	(4 694)	-
<b>Operating profit/loss</b>		<b>11 031</b>	<b>1 817</b>
Financial expenses	29	(6 428)	(1 755)
<b>Changes in the fair value of the investment property</b>	30	<b>(4 507)</b>	<b>(189)</b>
<b>Net profit/ (loss)</b>		<b>96</b>	<b>(127)</b>
<b>Earnings per share</b>	32	<b>0.02</b>	<b>(0.02)</b>
<b>Other comprehensive income</b>			
<b>Profit from revaluation of land</b>		848	(108)
<b>Total annual comprehensive income</b>		<b>944</b>	<b>(235)</b>

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## Statement of Changes in Equity

All amounts are in '000 BGN	Share Capital	Premium Reserves	Other Reserves	Undistributed Earnings	Uncovered loss	Total equity
<b>Balance 1<sup>st</sup> January 2016</b>	<b>6 011</b>	<b>7 651</b>	<b>5 225</b>	<b>9 632</b>	<b>(25 254)</b>	<b>3 265</b>
Profit/Loss	-	-	-	-	(127)	(127)
<b>Other comprehensive income</b>	-	-	-	-	-	-
Revaluation of non-current assets	-	-	(108)	-	-	(108)
<b>Total comprehensive income</b>	-	-	<b>(108)</b>	-	<b>(127)</b>	<b>(235)</b>
<b>Balance 31<sup>st</sup> December 2016</b>	<b>6 011</b>	<b>7 651</b>	<b>5 116</b>	<b>9 632</b>	<b>(25 381)</b>	<b>3 029</b>
Profit/Loss	-	-	-	96	-	96
<b>Other comprehensive income</b>	-	-	-	-	-	-
Revaluation of non-current assets	-	-	848	-	-	848
<b>Total comprehensive income</b>	-	-	<b>848</b>	<b>96</b>	-	<b>944</b>
<b>Balance 31<sup>st</sup> December 2017</b>	<b>6 011</b>	<b>7 651</b>	<b>5 964</b>	<b>9 728</b>	<b>(25 381)</b>	<b>3 973</b>

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## Cash Flow Statement

	Notes	31.12.2017 ‘000 BGN	31.12.2016 ‘000 BGN
<b>Cash flow from operating activities</b>			
Customers` receivables		23	37
Suppliers` payables		(1)	(7)
Salaries and social securities payables		-	-
Other operating activities` payments, net		(42)	(52)
Net cash flow from operating activities		<b>(20)</b>	<b>(22)</b>
<b>Cash flow from investment activity</b>			
Acquisition of property, plant and equipment		-	-
Net cash flow from investment activity		-	-
<b>Cash flow from financing activity</b>			
Proceeds on loans		-	(5)
Payments of interest, fees and commissions		-	(1)
Payments on leases		-	-
Net cash flow from financing activity		-	<b>(6)</b>
<b>Net change in cash and cash equivalents</b>		<b>(20)</b>	<b>(28)</b>
Cash and cash equivalents at the beginning of the period		34	62
<b>Cash and cash equivalents at the end of the period</b>	15	<b>14</b>	<b>34</b>

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# Explanatory Notes

## **1 General information**

“Intercapital Property Development” ADSIC is a company registered in accordance with the Special Purpose Vehicles Act. The Company operates as a collective investment scheme for real estate; “real estate securitization” means that the Company purchases real estate with cash flows accumulated from investors by issuing securities (shares, bonds).

The Company is registered as a stock company and is entered in the Commercial Registry in the Sofia City Court, company case № 3624/2005, batch № 92329, volume 1204, reg. 1, page 23. The Bulstat Code is 131397743. The legal seat and the address of the Company’s management is Aksakov Str. № 7a, Sofia.

The Company’s shares are listed for trading on the Bulgarian Stock Exchange – Sofia AD and on the alternative trading system NewConnect, organized by the Warsaw Stock Exchange.

The Company has a one-tier management system. The Board of directors is composed as follows:

- Velichko Klingov,
- Tsvetelina Hristova.
- AHELOY 2012 EOOD, represented by the Manager Nicolay Stefanov Chergilanov

The Investor Relations Director is Milen Bozhilov.

Service companies of “Intercapital Property Development” ADSIC in compliance with the clauses of the Special Purpose Vehicles Act are: Optima Audit AD, Marina Cape Management EOOD, IP Intercapital Markets AD, and AD Tokushev and Partners. Independent appraiser of the properties is Dobi 02 EOOD.

## **2 Basis for the preparation of financial statements**

The Company maintains its current accounting in accordance with the requirements of the Bulgarian trade and accounting legislation.

The Company’s financial statements are prepared in compliance with the International Financial Reporting Standards adopted by the European Commission. They include the International Accounting Standards (IAS), the International Financial Reporting Standards (IFRS) and the interpretations for their application (SIC - IFRS interpretations). IFRS also include the subsequent amendments and complements to these standards and interpretations and the future standards prepared by the International Accounting Standards Board (IASB).

The financial statements are prepared in BGN which is the functional currency of the Company. All amounts quoted are in thousands of BGN (‘000 lv) (including the comparative information for 2016) unless otherwise specified.

The financial report is compiled in compliance with the going concern principle.

This report is individual. The Company also prepares consolidated financial statements in accordance with the International Financial Reporting Standards (IFRS), developed and published by the International Accounting Standard Council (IASC) and adopted by the EU, in which the investments in subsidiary companies are accounted and disclosed in accordance with the IFRS 10 “Consolidated Financial Reports”.

### **Going concern**

The financial report has been compiled in compliance with the going concern principle. As of issuing these financial statements the management has made a judgement as to the Company’s ability to continue its activities as a going company based on the available information regarding the foreseeable future. The company registers a profit for the period in the amount of BGN 96 thousand and a negative cash flow from operating activities in the amount of BGN 20 thousand. The sum of current liabilities exceeds the sum of current assets by BGN 36 278 thousand as of 30.12.2017 compared to BGN 40 371 as of 31.12.2016.

The Company has failed to generate enough cash flows and therefore failed to pay off the due interest as of 14.08.2017 in the amount of EUR 32 610 and principal in the amount of EUR 125 000. As a result, on 24.10.2017 was notified that the trustee of the issue, Investbank AD, announces the entire bond issue of the issuer as a pre-term chargeable. For more details, please note.16. Bond issue.

The management has taken the following, more considerable measures to better the financial condition of the Company:

- The Company has rescheduled its short-term obligations towards the banks, as a result of which interest payables have been written off in the amount of BGN 13 773 thousand (note. 23. Other income)
- As a result of the rescheduling of the obligations, mortgages have been raised on part of the company’s property which has enabled it to fulfill a large part of its obligations towards its clients.
- The Company carries out expense optimizing policies, inventories, and other elements of the working capital. The expected result from these measures is considerably decreasing inventory, which will improve the liquidity and working capital of the Company.

The management believes that based on the forecasts for the future development of the Company and the measures taken, will be able to continue its activities and to resume the repayment of its obligations without undertaking any substantial changes in its activities. The management has no plans or intentions to provide for a significant limitation of the activities’ scale and/or transformation in a predictable future in a period of at least one year of the Company. However, the future activity of the Company depends on the business environment, as well as on the opportunity to renegotiate the obligations, including the bond loan.

The assessment of the Board of Directors on the applicability of the going concern principle covers a period of 12 months from the reporting date. On the basis of this assessment, the management considers that there are no factors and/or events that indicate suspicion about the implementation of this principle as a basis for the preparation of the financial statement. The management’s intentions about the future existence of the Company are to continue to perform all its activities.

These circumstances show the presence of significant insecurity, which can give rise to substantial doubt about the Company's ability to continue functioning as a going concern without other sources of funding.

## **Comparative Data**

When appropriate, for the purposes of a better presentation of the financial statements, the comparative data is reclassified in order to provide comparability with the current period, while the nature, amount and reasons for the reclassification are duly reported. When it is practically impossible to reclassify the comparative data, the Company announces the reasons for that as well as the nature of the changes that would have been made, should the amounts had been reclassified.

## **Amended standards**

This financial statement has been prepared according to the adopted accounting policy in the last annual financial statement as of December 31, 2016 with the exception of the application of the following new standards, changes of standards and interpretations:

### ***New and amended standards***

The Company has taken into consideration the following new standards, changes and interpretations of IFRS, developed and published by IASB, which are mandatory for application since the reporting period beginning on 1<sup>st</sup> January 2017, but have no substantial effect on their application to the financial result and the financial position of the Company:

**IAS 7 (amended) "Report for cash flows" – regarding a disclosure initiative in force for annual periods since 01.01.2017.** This change is an important explanation of the standard itself with guidance on the information provided to the users of financial statements, who can improve their understanding about the liquidity and the financial operations of the Company. The change requires an additional disclosure and explanation to be made in regards to the changes in the Company's liabilities in relation to: (a) changes from the funding activity resulted from operations, leading to changes in the cash flow; or (b) from changes resulted from non-cash flow transactions such as acquisitions and exemptions, accruals of interest, exchange rate effects, changes in the fair values and other similar ones. Changes in financial assets should be included in this disclosure if cash flows arising as a result are distributed to the financing activity (for example, in certain hedge operations). It is acceptable the inclusion of changes of other objects as part of the disclosure, as they are displayed below:

**IAS 12 (amended) "Income taxes" in force for annual periods, beginning on/or after 01.01.2017** – the recognition of deferred tax assets for unrealized losses. This change explains the deferred taxes in those cases when an asset is assessed at fair value and the assessment at fair value is lower from the tax base. The explanation includes: a) temporary differences occur no matter if the book value of the asset is lower than the tax base; b) the undertaking concerned should consider when determining its future tax profits whether it could deduct a larger amount from the book value of the asset or not; c) if according to the tax legislation there are any restrictions for the use of tax profits against which certain deferred tax assets could be refunded, then the review and the evaluation of the refunding of the deferred tax assets should be made in

combination with the rest of the deferred tax assets from the same sort; d) the tax deductions, resulting from the reverse manifestation of the deferred tax assets are excluded from the forecast for future tax profits, used for evaluation of the refunding of these assets;

**“Improvements in IFRS Cycle 2014-2016” (December 2016) – improvements in IFRS 12 in force for annual periods from 01.01.2017, IFRS 1 and IAS 28 in force for annual periods from 01.01.2018.** These improvements bring about partial changes and editing in the standards accordingly, mainly in order to eliminate the existing inconsistency or vagueness in the application of the rules and the requirements of the separate standards, as well as to bring in more precise terminology of concepts. Basically the changes are directed towards the following objects or operations: a) the scope and the disclosure requirements according to IFRS 12 are valid and for companies, classified by the order IFRS as held for sale, for distribution or as discontinued operations; b) waiving of certain exceptions for the application of IFRS 1; and c) the choice of venture capital funds or other similar enterprises in regards to the evaluation of their holdings in associated or joined enterprises at fair value in the profit or loss, which choice could be made on an individual investment basis upon its initial recognition (IAS 28);

***New standards and interpretations, which are published but still are not in force***

At the date of approval of this financial statement are published new standards, amendments and interpretations to the already existing standards, but are still not in force and are not adopted by the EU for the financial years, starting after 1<sup>st</sup> January 2017, and have not been applied from an earlier date by the Company. They are not expected to have significant effect on the financial reports of the Company. The management expects all standards and amendments to be applied during the first period, starting after the date of their entry into force.

**IFRS 9 “Financial instruments” in force for annual periods from 01.01.2018.** This standard is a new standard for financial instruments. Its ultimate purpose is to replace completely IAS 39. It establishes new principles, rules and criteria for classification, evaluation and writing off the financial assets and liabilities, incl. the hybrid contracts. IFRS 9 introduces a requirement the classification of the financial assets to be made based on the business model of the Company for their management and the characteristics of the agreed cash flows of the assets concerned. It defines only two main categories of assessments – at amortizable and at fair value. The new rules will lead to changes majorly in the accounting of financial assets as debt instruments and of financial liabilities accepted for accounting at fair value throughout the current profits and losses (for the credit risk). A peculiarity at the classification and the assessment model for the financial assets at fair value is added the category – with an assessment at fair value during the other comprehensive income (for some debt and equity instruments). Hedge accounting – for this purpose a new chapter is introduced in IFRS 9, by which a new model for hedge accounting is introduced which allows consequent and complete coverage of all financial and non-financial risk exposures, subject to hedging operations, and better presentation of risk management activities in the financials statements, especially their relationship with the hedging deals and the scope and the sort of documentation, which to be used. Further, it is introduced the option the accounting of the changes at the fair value of the own debts, assessed at fair value through profit or loss, but in the part, due to changes in the quality of the own creditworthiness of the Company, to be presented in the other comprehensive income instead of profit or loss. The enterprises applying IAS 7, will be able to accept this option as a policy, as well as, will be able to continue applying the requirements for the accounting of hedges at fair value at interest rate exposure according to the requirements of IAS 39, even after IFRS 9 takes effect. The methodology of determining the

impairment – the change offers an application of the “expected loss” model. According to this model all expected losses of an amortizable financial instrument (asset) are recognized at three stages depending on the change of its credit quality, and not only when the event crystallizes, as it is in the current model in IAS 39. The three stages are: the primary recognition of a financial asset – impairment for 12-month period or for the whole life of the asset; and accordingly – when the actual impairment occurs. They define how to be measured the losses from the impairment and respectively the application of the effective interest rate;

**IFRS 15 “Revenues from customers’ contracts” in force for annual periods from 01.01.2018.** This standard is a completely new standard. It introduces a comprehensive set of principles, rules and approaches for the recognition, accounting, and the information disclosure in regards to the sort, amount, period and the insecurities in relation to the revenues and cash flows, arising from contracts with counterparties. The standard will replace the current standards related to the recognition of revenues, mainly IAS 18 and IAS 11. The leading principle of the new standard is in the creation of a model of steps, through which the determination of parameters and the time of revenue are commensurated with the obligation of each party to their dealings among them. The key components are: a) contracts with customers of commercial nature and an estimate of the probability of collecting the contracted amounts from the enterprise according to the conditions in the given contract; b) identification of the separate liabilities for execution in the contract for goods and services – delimitation from the rest of the taken commitments in the contract, from which the client could take advantage of; c) determining the price of the transaction – the amount, which the enterprise expects to have the right to receive against the transfer of the respective goods or services to the customer – special attention is given on the changeable component in the price, the financial component, as well as in the component, received in kind; d) distribution of the price of the transaction between the separate obligations for the execution of the contract – usually on the basis of an independent sale price of each component; and e) the moment or the period of income recognition – at the successful execution of the obligation in the contract through transferring the control over the promised goods or services, for a given moment or for a certain period in time. The assumption is that the introduction of this standard can lead to the following changes: a) in complex contracts with tied sales of goods and services – it will be necessary a clear differentiation between good and services of each component and a condition in the contract; b) probability of change of the moment of sale’s recognition; c) increase of the disclosures; and d) introducing of additional rules for income recognition from a certain type of contracts – licenses, consignations, one-off pre-tax charges, guarantess and others. The standard permits not only a full retrospective application, but also a modified retrospective application, from the beginning of the current reporting period, with defined disclosures for the previous periods;

IFRS 15 Revenues from customers’contracts – explanations (in force for annual periods from 01.01.2018 – it is not accepted by the EC). These explanations are related to a) identifying of the obligations for execution on the basis of concrete promises for the stock or service delivery, b) identifying whether the Company is a principal or an agent in the supply of goods or services, and c) transfer of licenses. Also, this change provides reliefs with the transition to the new standard;

The management intends to apply the standard retrospectively, recognizing the cumulative effect of the primary application of this standard as a change in the initial balances of the non-distributed profit at the date of the initial application. According to this method IFRS 15 will be applied only in contracts, which have not been terminated to 1<sup>st</sup> January 2018.

**IFRS 16 “Leasings” in force from January 1, 2019.** This standard is with a completely changed concept. It introduces new principles for recognition, measurement and presentation of the

leasing by imposing a new model in order to ensure more credible and adequate presentation of this deal for the lessee and the lessor. This standard replaces the instructions of IAS 17. a) the main principle of this new standard is the introduction of one-type model for the accounting treatment of the leasings of the lessees – for all leasing contracts with duration of more than 12 months will be recognized an asset under the form of “right of use”, which will be amortized for the period of the contract, and respectively, will be accounted a financial liability for the obligation in these contracts. This is a significant change in the current accounting practice. For any short-term or leasings of inferior assets, it is allowed an exception and preservation of the practice; b) at the site of the the lessors there should not be any significant changes and they could continue to account the leasings similarly to the old standard IAS 17 – like operative and financial. As far as the new standard gives a more complete concept, one more detailed analysis of the conditions in the contracts follows to be made and from their site and it is possible that at the lessors can happen grounds for reclassification of certain leasing deals. The new standard requires expansion of the disclosures. The management of the Company is in the process of a thorough research of the eventual effects and the cases of contracts for rent and leasing with clients, where changes in the current book-keeping policy will occur;

**IFRSIC 22 (amended) – transactions with foreign currency and advance payments in force for annual periods from 01.01.2018.** This explanation refers to the accounting of transactions or part of the transaction in foreign currency when receiving the advance payments, before recognizing of the asset itself, cost or revenue. In these cases the enterprises report an asset with pre-paid amounts (pre-payments for supply of assets and services) or obligations for deferred income (received advances from customers of sales) and they are treated for non-monetary. When receiving such advance payments in foreign currency, the date of the transaction is used for defining of the exchanged rate, and if there are many payments – the date of the transaction is defined for each separate payment.

The change in the accounting policy is applied retrospectively.

There are no other IFRS or IFRSIC explanations, which are still not in force, which could be expected to have an effect on the financial statement.

### **3 Accounting Policy**

#### **3.1 General Position**

The most important accounting policies applied to the preparation of these financial statements are presented below.

The financial reports are prepared in compliance with the valuation principles concerning any type of assets, liabilities, revenues, and expenses according to IFRS. The valuation bases are announced in detail in the following points of this accounting policy. The financial statements are prepared in compliance with the going concern principle.

In the report for financial condition two comparative periods are presented, when the company:

- a) Applies accounting policies retrospectively;
- b) Recalculates retrospectively positions in the financial report; or
- c) Reclassifies positions in the financial report
- d) And this has significant effect on the information in the report for financial condition as of the beginning of the previous period.

The company has adopted to present two comparative periods in all cases in order to provide consistency in the presentation for every year.

### **3.2 Transactions in foreign currency**

The items of the financial statements of the Company are valued in the currency of the general economic environment in which the Company performs its activity (“functional currency”). The Company’s financial statements are presented in Bulgarian lev BGN. This is the functional currency and the currency for presentation of the Company.

The transactions in foreign currency are accounted when they are initially recognized in the accounting currency of the Company at the official foreign exchange rate for the transaction date, (the fixing announced by the Bulgarian National Bank). The gains and losses from foreign exchange operations, arising at the settlement of those transactions and at the revaluation of the positions in foreign currency at the end of the period, are reflected in the Income Statement.

The Currency Board in Bulgaria was introduced on 1 July 1997 in accordance with the recommendations of the International Monetary Fund (IMF) and initially the BGN was fixed to Deutsche Mark in the ratio of 1:1. When the Euro was introduced, the Bulgarian lev was fixed to the Euro in proportion 1EUR = 1.95583 BGN.

### **3.3 Revenues and Expenses**

The revenues include revenues from sales of finished goods, investment property and management of investment property.

The revenues are valued at fair value of the received or receivable compensation, provided that all the commercial discounts and quantity rebates, made by the Company, have been taken into account. In case of an exchange of similar assets with similar price, the exchange is not counted as a revenue generating transaction. The revenues are recognized at the moment of their realization while the expenses are recorded in compliance with the principle of matching with the realized revenue.

In case of a sale of finished goods and goods for sale the revenue is recognized if the following criteria are met:

- The substantial risks and benefits from the ownership of the goods have been transferred to the buyer;
- The seller retains neither continuing participation in the management of the goods for sale or the finished goods, nor effective control over them;
- The amount of the revenue can be measured reliably;
- It is probable that the economic benefits of the transaction will flow to the Company;
- The costs (both incurred to date and expected future costs) are identified and can be measured reliably;
- When there is a completed stage of the construction (contracted with the client) as well as when the respective certificate of use is received;
- The revenue from sale of real estate property is reported when there is transfer of ownership or of right to use.

To summarize, the main principle in the accounting policy of the Company is the Matching principle of the revenues to the expenses. That is, only after the final delivery of the finished

goods or the goods for sale and the completion of all the expenses related to the packing of those goods the revenues shall be recognized.

The revenue related to a service providing transaction is recognized when the result of the transaction can be measured reliably. The investment revenue from renting of investment properties is included in the Comprehensive Income Statement on the basis of the rendered services for which the service company Marina Cape Management EOOD has issued invoices.

The operating expenses are recorded in the Income Statement at the moment of using the service or on the date of their emergence. The dividends received, excluding those coming from investments in associated companies, are recognized at the moment of their distribution.

The gains and losses from foreign exchange operations are recognized currently as the transactions are performed and the related foreign exchange differences are realized.

The revenues from fees and commissions are classified as operating revenues.

The revenues from interests are recognized on a proportionate time basis by using the method of the effective interest rate.

When a receivable is questionable the Company reduces its book value to its realizable value - the expected future cash inflow discounted at the initial effective interest rate of the instrument – and continues to unfold the discount in the form of interest revenues.

According to the model of the fair value all investment properties are estimated at fair (market) value and when the financial statements are prepared, the difference between the book and the fair value is accounted as a revenue or expenditure from revaluation of investment property in the Income Statement. Depreciation of investment property is not calculated.

The Company writes off its investment properties when they are sold or when they are permanently out of use, in case that no economic benefits are expected from their sale. The profits and losses from taking out of use or sale of the investment properties are included in the Income Statement (comprehensive income) and represent the difference between the net proceeds from the sale and the book value of the asset.

### **3.4 Loan expenses**

The loan expenses are mainly interest paid on the loans received by the Company. All the loan expenses, including those which could be directly attributed to the purchase, the construction of an asset corresponding to the requirements, are recognized as expenses for the period in which they have arisen as part of the “financial expenses” in the Income Statement and other comprehensive method. In the Comprehensive Income Statement, additionally paid bank fees related to renegotiating loan relationships are reported. Till the final completion of the construction works for a respective project, the loan expenses increase the direct cost of the properties in construction. After the final completion of the construction works on the project the capitalization of the loan expenses shall be ceased. The capitalization of those expenses shall be ceased also in case of temporary suspension of the construction works.

### **3.5 Intangible assets**

The intangible assets are initially valuated at their cost. In case of independent acquisition the cost is equal to the purchase amount plus all non-recoverable taxes and direct expenses made in relation of the preparation of the asset for exploitation.



exceeding the initially evaluated effectiveness of the existing asset. All other subsequent expenses are recognized as expenses for the period in which they have occurred.

The Company applies the alternative approach for further valuation of property, plant and equipment, and the recommended approach for all the other non-current tangible assets.

The increases of the value which are due to revaluation of land are accounted as an increase of the reserves. The decreases that are up to the amount of previous increases in the same asset are reported as decrease of the same reserve. Further decreases in the value of the asset are accounted as decrease of the additional reserves (if any) or as current expenditure.

The revaluation reserve is recognized as undistributed profit after the decommissioning of the respective asset.

The results from decommissioning of non-current assets are determined by comparing the proceeds to the book value and are reported in the financial result for the period.

If the book value of a certain non-current asset is higher than its realizable value, this asset shall be impaired to its realizable value.

Property, plant and equipment acquired under the terms of a financial lease are depreciated based on their expected useful duration determined by comparing the asset to similar assets, or based on the lease value if the latter has a shorter duration.

The depreciation of property, plant and equipment is calculated by using the straight-line method of depreciation on the estimated useful life of the different groups of assets as follows:

- Machinery 3,3 years
- Office fittings 6,67 years
- Equipment 10 years
- Computers 2 years
- Others 6,67 years

The chosen threshold of essence of the property, plant and equipment owned by the Company is 700 BGN.

### **3.7 Lease Reporting**

In accordance with IAS 17 "Leases", the rights of ownership of the asset are transferred from the leaser to the lessee, in cases where the lessee bears the substantial risks and rewards incidental to ownership of the leased asset.

Upon conclusion of a finance lease, the asset is recognized in the statement of financial position of the lessee at the lower of the two values - the fair value of the leased asset and the present value of the minimum lease payments plus incidental payments, if any. In the statement of financial position the corresponding finance lease obligation, regardless of whether some of these lease payments are payable in advance upon signing of the lease is reflected.

Subsequently, the lease payments are apportioned between finance expense and a reduction of the outstanding obligation under finance lease.

Leasing of land and buildings are classified separately, distinguishing components of land and buildings in proportion to the ratio of the fair values of their shares in the lease, at the date on which the assets are recognized initially.

Assets acquired under finance leases are depreciated in accordance with IAS 16 "Property, plant and equipment" and IAS 38 "Intangible assets".

The interest element of lease payments represents a constant proportion of the liability outstanding and is recognized in profit or loss for the period of the lease.

All other leases are considered operating leases. Payments made under operating leases are recognized as an expense on a straight-line basis over the life of the agreement. Costs associated with operating leases, e.g. maintenance costs and insurance, are recognized in profit or loss as incurred.

### **3.8 Tests for impairment of the intangible assets, property, plant and equipment**

In calculating the impairment the Company defines the smallest distinctive group of assets for which independent cash flows can be determined – a unit generating cash flows. As a result, some of the assets need to be tested for impairment on an individual basis and others on a unit basis, generating cash flows.

All the assets and units, generating cash flows, are tested for impairment when events or a change in the circumstances indicate that their book value cannot be reintegrated.

When the realizable value of a certain asset or a unit, generating cash flows, is lower than the respective book value, the latter is reduced to the amount of the asset's realizable value. This reduction is an impairment loss. In order to determine the realizable value the Company's management calculates the expected future cash flows for each unit, generating cash flows, and determines a suitable discount factor to calculate the present value of these cash flows. The data, used to make tests for impairment is directly related to the last approved forecast budget of the Company, which is corrected if necessary in order to exclude the influence of future reorganizations and substantial improvements of the assets. The discount factors are determined separately for any distinct unit, generating cash flows, and reflect the risk profile estimated by the Company's management.

The impairment losses per unit, generating cash flows, are distributed in reduction of the book value of the assets from this unit proportionately to their book value. The Company's management subsequently estimates if indications exist showing that the impairment loss recorded in previous years is reduced or does not exist anymore. An impairment loss recorded in a previous period shall be reintegrated if the realizable value of the unit, generating cash flows, is more than its book value.

### **3.9 Investment property**

The Company reports as investment property buildings that are held rather to generate rental income or to increase the company's equity or for both and also for sale within the ordinary economic activity.

Investment property is recognized as an asset in the financial statements of the Company only if the following two requirements are met:

- it is likely that future economic benefits from the investment property are obtained;
- The value of the investment property can be estimated reliably.

The investment property is valued initially at cost that includes the purchase price and any other expenditures which are directly related to the investment property – such as legal fees, transfer property's taxes and other expenditures for the deal.

After their initial recognition the investment properties are reported in compliance with the model of the fair value. The fair value is the most probable price which could be obtained on the market as of the date of compounding the Report for Financial Condition. The investment properties are revaluated on an annual basis and are included in the Income Statement and other comprehensive income at their market values. The revaluations are made by independent appraisers with professional qualification and considerable work experience and with recent experience in the location and the category of the qualified property. The qualifications have to be based on pieces of evidence for the market conditions.

The gain or loss arising from changes in the fair value of the investment property is included in the profit or loss in the period in which it arises.

The subsequent expenditures related to the investment property, which have already been recognized in the financial statements of the Company, are added to the book value of the property when it is probable for the Company to obtain future economic benefits that are higher than the initially estimated value of the existing investment property. All other subsequent expenditures are recognized for expenditure in the period when they are incurred.

The Company writes off its investment property when it is sold or when it is permanently taken out of use, in case that no economic benefits are expected from its sale. Profits and losses from decommissioning or sale of investment properties are included in the Income Statement and other comprehensive income and are calculated as the difference between the net proceeds from the sale and the book value of the asset.

The rental income and the operating expenditures, related to the investment property, are accounted accordingly as “sales”, “cost of materials”, “cost of external services” and “other expenditures”. As a rule, the profit from investment property (renting) is an investment profit and is stated separately.

### **3.10 Financial Assets**

The financial assets, excluding the hedging instruments, include the following categories of financial instruments:

- Loans and receivables;
- Financial assets, reported at fair value in the profit or loss
- Investments held to maturity;
- Financial assets available for sale.

Financial assets are distributed towards the different categories depending on the reason why they were acquired. The category of a financial instrument determines the method used for its valuation and whether the revenues and expenses are reported in the Income statement and other Comprehensive Income or directly to the equity of the Company.

When first recognizing a financial asset, the Company values it at fair value. The transaction costs which can be allocated directly to the purchase or the issuance of a financial asset are allocated to the value of the financial asset or liability except for the financial assets and liabilities reported at fair value in the profit or loss.

A write-off of a financial asset is carried out when the Company loses control over the contractual rights that represent the financial asset – i.e. when the rights to receive cash flows have lapsed or a significant portion of the risks and rewards from owning the assets has been transferred. Tests for the depreciation are carried out at each balance sheet date, in order to determine whether objective evidence about the depreciation of specific financial assets or groups of assets does exist.

The interest payments and other cash flows related to the ownership of financial instruments are recognized in the Income statement and other comprehensive income when they are received, regardless of how the balance sheet value of the financial asset they are related to is determined.

Loans and receivables are non-derivative financial instruments with fixed payments that are not traded on an active market. The subsequent valuation of loans and receivables is made based on the amortized value using the effective interest rate method.

Significant receivables are tested for any impairment separately, when they are past due as of the balance sheet date or when objective evidence exists that the counterparty would not honor its obligations. All other receivables are tested for impairment in groups, determined by the industry and the region of the counterparty as well as based on other credit risks, if applicable. In this case the percentage of depreciation is determined based on historical data on outstanding liabilities of counterparties in each group identified.

### **3.11 Inventories, work in progress**

The Company operates only by contracting various activities to specific contractors; i.e. the Company does not have its own staff and contracts all activities to outside firms. The direct cost of the work in progress includes the expenditures for design, construction-assembly works, advertisement, construction supervision, fees and etc. The cost of the finished goods includes also the loan expenses incurred for the construction of a particular project. (Amended IFRS 23, applicable from 01.01.2009).

A portion of the value of the land, corresponding to its impairment due to limited rights of disposal, is included as an element in the cost of the finished goods (real estate – apartments, commercial properties and etc.). The land shall be valued (also according to the Bulgarian legislation) by an independent licensed appraiser at least once per year.

The direct expenditures are accumulated in the moment of their performance by batches for the particular units, and the indirect expenditures are distributed proportionally to the direct expenditures incurred for the unit.

The inventories include materials and finished goods. The purchase cost and other directly attributable costs related to the delivery are included in the cost of inventories. The expenses on used loan financing are included in the value of the inventories (work-in-progress) as their attachment to the particular unit is analytically taken into account, whereas after the completion of the work-in-progress, the expenses for financing are reported in the result. After the final completion of the construction works, the financial expenses are reported directly in the financial

result. In case of suspension of the construction works, the reporting of the loan expenses, fees and commissions on the used loan financing for the work-in-progress, shall be ceased.

The Company determines the expenses for inventories by using the weighted average method.

In case of a sale of inventories, their book value is recognized as an expense for the period in which the respective revenue has been recognized.

The Company determines the expenses for inventories by using the weighted average method.

In case of a sale of inventories, their book value is recognized as an expense for the period in which the respective revenue has been recognized.

### **3.12 Income taxes**

The Company's financial result is not subject to taxation with a corporate tax pursuant to Art.175 of the Corporate Income Tax Law.

### **3.13 Cash and cash equivalents**

The Company reports as cash and cash equivalents the money held in cash and in bank accounts.

### **3.14 Equity and dividend payments**

The Company's share equity shows the nominal value of the issued shares.

The undistributed profit includes the current net profit/loss that is included in the Income Statement and cumulated profits and loss not covered from previous years.

In compliance with Art.10 of the ADSIC Law the Company should distribute as dividends at least 90% from its current annual profit which is determined in the way stated bellow and in consequence of the requirements of Art.247a of the Trade Law. The profit for distribution is the financial result (accounting profit/ loss) corrected as follows:

- increased/ decreased with the losses/ gains from subsequent asset valuations;
- increased/ decreased with the losses/ gains from transactions transferring ownership of real estate;
- increased/ decreased in the year of ownership transfer of assets with the positive/ negative difference between:
  - the asset selling price; and
  - the sum of asset historical price and subsequent expenses brought about the increase in its book value;

The Company could issue only dematerialized shares which are registered in accounts in the Central Depository. The Company's shares could be written down only for cash payments and their whole issued value should be paid, except in the cases of transforming from shares into bonds, issued as convertible. The ordinary shares are classified as shareholders' equity.

The inherent for issuing new shares or options additional expenditures are included in the shareholders' equity as decrease of proceeds on net taxes. The directly connected with issuing of new shares additional expenditures are included in the price of the acquisition as a part of the payment when purchasing.

The Company could not issue shares which give a right of more than one vote or additional liquidation quota.

The Company could issue different classes of shares. The shares from the same class give equal rights to the shareholders.

The Company could issue the following classes of shares:

- class A – ordinary registered shares with a right of vote and
- class B – p reference shares with a right of guaranteed or additional dividend and without a right of vote.

The Difference between the nominal value of issued shares and the issue value is included in the additional reserves and it is an element of shareholders` equity of the Company.

### **3.15 Pension and other liabilities to the personnel**

The short-term liabilities to the personnel include wages, salaries and social contributions.

The Company has not elaborated and does not apply any plans for remuneration of employees after they leave or other long-term remunerations and plans for remuneration of employees after they leave, or in the form of compensations with stocks or shares of the equity, since by law the Company may appoint under a contract of employment only one person - Director of Investor Relations.

### **3.16 Financial liabilities**

The financial liabilities include bank loans, commercial and other liabilities as well as financial lease payables.

The financial liabilities shall be recognized when there is a contracted obligation to pay a certain money amount or other financial assets to another company or contract liability of exchange of financial instruments with another company in case of unsuitable conditions. All the expenses related to interest payments are recognized as financial expenses in the Income Statement.

The bank loans are reported in the Company's Balance Sheet, net from the expenses associated with receiving the credit. Financial expenses such as premium payable when settling the debt or its buy-back, and directly attributable to the transaction expenses are reported in the Income Statement in accordance with the recording principle and the effective interest rate method, and are added to the carrying value of the financial liability to the extent to which they have not been settled as of the end of the period in which they have occurred.

Commercial payables shall be initially recognized at nominal value and consequently valued at their amortizing value less any payments associated with settling the liability.

The dividends that should be paid to the shareholders of the Company are recognized when the dividends are approved on a meeting of the shareholders.

### **3.17 Interest income**

Interest income is reported on an accrual basis using the effective interest rate. Dividend income is recognized at the time when the right to receive payment.

### **3.18 Operating expenses**

Operating expenses are recognized in profit or loss using the services or date of occurrence. Warranty expenses are recognized and deducted from the related provisions in the recognition of the related revenue.

### **3.19 Provisions, conditional assets and conditional liabilities**

Provisions are recognized when there is likelihood that present liabilities, as a result of past events, bring about an outflow of resources of the Company and the amount of the liability could be measured reliably. It is possible that the duration or the amount of cash outflow is not reliable. The current liability rises from the presence of a legal or constructive obligation in consequence of past events. Provisions for restructuring are recognized if a detailed restructuring plan is elaborated and applied or if the management has announced the main points of the restructuring plan to the affected persons. Provisions for future losses from the activity are not recognized.

The amount recognized as a provision is computed based on the most reliable estimation of expenses necessary to settle the current liability by the end of the reporting period provided that the risk and uncertainty are taken into account, including those related to the current liability. The provisions are discounted when the effect of the time differences in the value of money is substantial.

Compensations by third parties in relation to a given liability of the Company are recognized as a different asset. This asset, however, could not be more than the amount of the respective provision.

The provisions are revised by any Balance Sheet date and their amount is corrected so that it reflects the best approximate estimate by the Balance Sheet date. In the cases in which it is assumed that a resource outflow as a result of a current liability is not likely to occur, such a liability is not recognized. The Company does not recognize any conditional assets since recognizing them may result in recognizing an income which may never be realized.

### **3.20 Significant estimations of the management when applying the accounting policy**

The significant estimations of the Management when applying the accounting policies of the Company, which have the most essential influence on the financial statements, are described below. The main sources of uncertainty when using the approximate accounting estimates are described in point below.

#### **3.20.1. Uncertainty of the approximate accounting estimates**

For preparing the financial report the management makes a number of suppositions, estimations, and assumptions associated with the recognition and valuation of assets, liabilities, revenues and expenses.

The actual results may differ from the suppositions, estimations, and assumptions made by the management and very rarely correspond to the results estimated in advance.

Information about the existing suppositions, estimations, and assumptions which have the most essential influence on the recognition and valuation of assets, liabilities, revenues and expenses is presented below.

### 3.20.2. Impairment

As impairment loss is recognized the amount by which the book value of a given asset or a unit generating cash flows exceeds its realizable value. In order to determine the realizable value the Company's management calculates the expected future cash flows for each unit generating cash flows and determines the suitable discount factor to compute the net present value of these cash flows. To calculate the expected future cash flows the management makes suppositions on the future gross income. These assumptions are associated to future events and circumstances. The actual results may vary and impose substantial corrections in the Company's assets for the next reporting year.

In most cases determining the applicable discount factor includes performing suitable corrections due to market risk and risk factors which are specific for the different assets.

### 3.20.3. Useful life of the amortizing assets

The management revises the useful life of the amortizing assets at the end of each reporting period. By 31<sup>st</sup> December, the management determines the useful life of assets, which is the expected duration of using the Company's assets. The book values of the assets are analyzed in point 6. The actual useful life may be different from the estimated one due to technical and moral warning out of mainly software products and computer equipment.

## 4. Property, plant and equipment (Tangible assets)

The book value of the property, plant and equipment could be presented as follows:

	Land	Machinery	Computer and other equipment	Work in progress	Total
	'000 BGN	'000 BGN	'000 BGN	'000 BGN	'000 BGN
<b>Book Value</b>					
Balance as of 1 <sup>st</sup> January 2017	5 025	544	4	7 073	12 646
Newly acquired assets		-	-		
Modification as a result of revaluation	848	-	-		
Written-off assets	-	-			
Balance as of 31 <sup>st</sup> December 2017	<b>5 873</b>	<b>544</b>	<b>4</b>	<b>7 073</b>	<b>13 494</b>
<b>Depreciation</b>					
Balance as of 1 <sup>st</sup> January 2017	-	(366)	(4)	-	(340)
Written-off depreciation	-	-	-	-	-
Depreciation	-	(54)	-	-	(54)
Balance as of 31 <sup>st</sup> December 2017	-	<b>(390)</b>	<b>(4)</b>	-	<b>(394)</b>
<b>Book Value as of 31<sup>st</sup> December 2017</b>	<b>5 873</b>	<b>154</b>	<b>-</b>	<b>7 073</b>	<b>13 100</b>

	Land	Equipment	Computer and other equipment	Work in progress	Total
	‘000 BGN	‘000 BGN	‘000 BGN	‘000 BGN	‘000 BGN
<b>Book Value</b>					
Balance as of 1 <sup>st</sup> January 2016	5 133	545	4	7 073	12 755
Newly acquired assets	-	-	-	-	-
Modification as a result of revaluation	(108)	-	-	-	(108)
Written-off assets	-	-	-	-	-
<b>Balance as of 31<sup>st</sup> December 2016</b>	<b>5 025</b>	<b>545</b>	<b>4</b>	<b>7 073</b>	<b>12 647</b>
<b>Depreciation</b>					
Balance as of 1 <sup>st</sup> January 2016	-	(282)	(4)	-	(286)
Written-off depreciation	-	-	-	-	-
Depreciation	-	(54)	-	-	(54)
Property, plant and equipment - continued					
Balance as of 31 <sup>st</sup> December 2016	-	<b>(336)</b>	<b>(4)</b>	-	<b>(340)</b>
<b>Book Value as of 31<sup>st</sup> December 2016</b>	<b>5 025</b>	<b>209</b>	<b>-</b>	<b>7 073</b>	<b>12 307</b>

## 5. Investment property

The properties that are built and for which the Company has received Certificate for exploitation and that are not sold and respectively transferred to clients are reported in the item “Investment property”, because the Company is restricted to operate the constructed assets by itself and it could realize income through assigning the management of those assets to third parties. The investment properties are valued initially at their direct cost which includes all the expenditures that are directly related to the particular investment property – such as construction-assembly works, project services, legal fees and other expenditures. After their initial recognition the investment properties are reported through the use of the model of the fair value.

Pursuant to the Special Purpose Vehicles Act the Board of Directors has assigned the completion of revaluation as of 31.12.2017 of all the company’s real estate properties to the independent appraiser – “Dobi 02” Ltd., the result of which was reported in the financial statement of the Company for 2017.

The next table presents the changes in the value of the investment property in 2017 and 2016.

	<b>31.12.2017</b>
	<b>‘000 BGN</b>
<b>Book value as of January 01, 2017</b>	<b>35 637</b>

Newly acquired assets	263
Written-off assets	(4 694)
Net profit from changes in fair value	(4 507)
<b>Book value as of December 31, 2017</b>	<b>26 699</b>

**31.12.2016  
'000 BGN**

<b>Book value as of January 01, 2016</b>	<b>35 970</b>
Newly acquired assets	
Written-off assets	(157)
Net profit from changes in fair value	(176)
<b>Book value as of December 31, 2016</b>	<b>35 637</b>

The Company has invested in the construction of two projects - “Marina Cape” and “Borovets Grand”. The projects are described in detail further below.

The construction of the project “Marina Cape” was entirely completed in 2010 and more particularly Zone 4 in the project was finished for which the Company received Certificate of commissioning in August 2010. In addition, the completion works and the final equipment of all the rest properties in the project which up to then were reported as work-in-progress were finished. As a result with Resolution of the Board of Directors from 01.10.2010 all non-sold properties in the complex “Marina Cape” were recognized as investment property.

The amount of BGN 328 thousand is reflected as a work in progress, which represents the sum of the accrued expenses on sales of properties in the resort complex "Marina Cape", which will be recognized as an expense in the recognition of revenue in sale with a deed or transferred right of use, subject to the principle of comparability of income and expense.

There are two projects that have been built on land plots, owned by the Company. The projects are described in detail below:

### **Marina Cape Project**

“Marina Cape” holiday complex is located in the peninsula part of the Black sea town of Aheloy which allows for picturesque views of both the bay and the open sea. That is reflected both in the urban decision – plastic S-shape of the first and second zone, and in the modeling of the individual residences. An important emphasis of the overall silhouette is the lighthouse and the clock tower.

The complex consists of four distinct zones deployed on a property with area of 40 000 m<sup>2</sup> and forming a total gross floor area over 66 000 m<sup>2</sup>, with a total of 761 apartments. The complex has 4 restaurants, 4 cafes, 14 spaces for shops, 2 squash rooms (licensed by the Squash Federation), a room for medical and dental center, fully equipped and working fitness, spa center, bowling, children`s center, a room set aside for a bank office, administrative part, offices, 2 swimming pools, and servicing rooms to the relevant objects.

Each zone consists of separate sectors (total 27) and the majority are residential, except the sectors which are intended for: bank office, sport playground area, children`s center and Sector

27 – a restaurant on two levels. As part of the housing sectors are included public buildings – restaurants, cafes, shops, offices, rooms for medical center, fitness. In the central part of the complex there is a swimming pool with a total area of 910 m<sup>2</sup> with a pool bar and a children's swimming pool, and in the north-east side is located a pool on area of 470 m<sup>2</sup>.

There is a special project to plant surrounding area of the holiday complex. The ground floor residences of much of the buildings have small separate yards.

The total area of the trade and public objects in the complex is nearly 12 000 m<sup>2</sup>.

For the purposes of the complex is constructed and put into operation a new incoming water supply, sewerage and electricity grid. It is done rehabilitation of the existing roads and streets in the region. It is also done and an entirely new road link. There are the appreciate systems to provide telephone signal and internet, including a network for wireless internet and also systems for fire-alarm and video surveillance.

### **Borovets Grand Project**

The project envisages construction of residential properties mainly for holiday use in detached complex of buildings. The complex carries the trade name “Borovets Grand”. It is located in the area of Borovets Resort. Borovets is located on 62 km southeast of Sofia. Borovets is one of the oldest and well-known winter resorts in Bulgaria. Today Borovets is the biggest Bulgarian ski center by length and capacity of the ski slopes and facilities. The climate is mild and in the winter is soft and with much snowfall. The average temperature in January that is the coldest month, is about 4,8° C. Usually the ski season is from the middle of December to April. The resort proposes excellent conditions for winter sports: Alpine skiing, snowboarding, ski-running. The slopes are marked and supported and their total length is 58 km and the longest slope is 12 km. In the complex there are 12 ski-lifts with total length over 14 km. The ski-lifts provide access to the surrounded peaks – Musala, Small Musala, Irechek, Deno, Aleko.

### **Borovets Grand Complex**

The project is for “L”-shaped building situated in the southeastern side of the parcel. There is an egress on two streets. The first two levels are half-dug because of the big displacement. Above these two levels there are three residential floors and on the attic floor there are maisonettes. The Borovets Hotel Complex is located in the old center in the Borovets Resort. On the same place has functioned a summer cinema in the past. The property has been a part of forest, in its northwestern side there is a dense forest, and southwest there is a small river.

The trade-administrative zone and the servicing objects are located in the complex ground floor and basement. They include lounge with a reception and administration, lobby bar, restaurant for 110 places with banquet room and covered terrace, two shops, ski-cloakroom, fitness and spa center, indoor pool, children`s center, bowling, hairdresser`s, lounge with registry. Also there are technical and official rooms and water closets, including and for people with disabilities. The total area of the retails is 3 140 m<sup>2</sup>. The complex has a covered parking on two levels with 34 places and open with 16 places as well.

The residential part of the complex consists of 75 residences with total gross floor area of 5 175 m<sup>2</sup>. They are 41 studios, 14 apartments mainly with one bedroom, and a big variety of maisonettes.

In the surrounding area will be realized a project to plant, with alleys and part lighting and the pine forest will be preserved.

Real estate owned by “Intercapital Property Development” ADSIC given as collateral for credits received by the Company:

**1). Towards “FUTURES CAPITAL” AD and “Marina Cape Properties” OOD**

- Deed of incorporation of mortgage contract from 08.11.2007, № 112, vol. XII, reg. № 3901, case № 2217/2007 of a notary Hristo Roidev, collateral of bank credit № 1236/2007, concluded on 19.10.2007, including residential properties situated in vacation complex Marina Cape, town of Aheloy, Municipality Pomorie, Bourgas Province.

<b>Secured mortgage lender</b>	<b>Number of real estate under the collateral</b>	<b>Area of real estate under the collateral</b>
"Marina Cape Properties" OOD	8	627,08 sq.m.
"Futures Capital" AD	18	1859,39 sq.m.

- Deed of incorporation of mortgage contract from 04.12.2009, № 80, vol. VII, reg. № 4288, case № 1226/2009 of a notary Gergana Nedina, collateral of bank credit № 1236/2007, concluded on 19.10.2007, Annex A1-1236 from 16.01.2009 and Annex A2-1236 from 19.10.2009, including residential properties situated in vacation complex Marina Cape, town of Aheloy, Municipality Pomorie, Bourgas Province;

<b>Secured mortgage lender</b>	<b>Number of real estate under the collateral</b>	<b>Area of real estate under the collateral</b>
"Marina Cape Properties" OOD	9	652,69 sq.m.
"Futures Capital" AD	18	1 650,85 sq.m.

- Deed of incorporation of mortgage contract from 09.07.2008, № 35, vol. VIII, reg. № 2387, case № 1404/2008 of a notary Hristo Roidev, collateral of bank credit № 736/2008, concluded on 07.07.2008, including residential properties situated in vacation complex Marina Cape, town of Aheloy, Municipality Pomorie, Bourgas Province.;

<b>Secured mortgage lender</b>	<b>Number of real estate under the collateral</b>	<b>Area of real estate under the collateral</b>
"Marina Cape Properties" OOD	19	1064,51 sq.m.
"Futures Capital" AD	15	913,17 sq.m.

- Deed of incorporation of mortgage contract from 04.12.2009, № 80, vol. VII, reg. № 4288, case № 1226/2009 of a notary Gergana Nedina, collateral of bank credit № 736/2008, concluded on 07.07.2008, Annex A1-736 from 16.01.2009 and Annex A2-736 from 19.10.2009, including residential properties situated in vacation complex Marina Cape, town of Aheloy, Municipality Pomorie, Bourgas Province.

<b>Secured mortgage lender</b>	<b>Number of real estate under the collateral</b>	<b>Area of real estate under the collateral</b>
"Marina Cape Properties" OOD	9	652,69 sq.m.
"Futures Capital" AD	18	1 650,85 sq.m.

- Deed of incorporation of mortgage contract from 21.12.2009, № 162, vol. VII, reg. № 4500, case № 1306/2009 of a notary Gergana Nedina, collateral of bank credit № 327/2009, concluded on 14.12.2009, including residential properties situated in vacation complex Marina Cape, town of Aheloy, Municipality Pomorie, Bourgas Province;

<b>Secured mortgage lender</b>	<b>Number of real estate under the collateral</b>	<b>Area of real estate under the collateral</b>
"Marina Cape Properties" OOD	12	704,41 sq.m.
"Futures Capital" AD	28 - residential estates	3486,39 sq.m.
	25 - commercial areas	7884,3 sq.m.

## **2) Towards "BG Invest Properties" AD**

Contract for sale-purchase of receivables dated 05.04.2013, concluded between Investbank AD and BG Invest properties AD, pursuant to which the bank has transferred its receivable from “Intercapital Property Development” ADSIC in the amount of 240 000 due to a contract for credit to “BG Invest Properties” AD.

Deed of establishment of a mortgage since 29.07.2013, act № 161, Volume III, registration № 3115, № case 538/2013, at a notary Gergana Nedina, collateral of a bank loan agreement of 08.03.2013 on the following property located in vacation complex Marina Cape, town Aheloy and property of ICPD ADSIC: sports and recreation center "Fitness Centre" with ID 00833.5.409.21, Aheloy, Municipality Pomorie, Burgas Region, an area of 214.00 sq.m., with adjacent parts: 33 square meters, along with their common parts of the building right on the pitch.

### **3). Teximbank AD:**

Contract for bank loan for working capital from 09.12.2013, signed between "Teximbank" AD and Intercapital Property Development ADSIC under which "Teximbank" AD has provided the ICPD ADSIC as a borrower, loan of 130 000 (one hundred and thirty thousand euros), intended for working capital.

Deed of establishment of a mortgage since 5.2.2014, act № 53, Volume I, registration № 358, № case 51/2014, at a notary Gergana Nedina, collateral of a bank loan agreement of 09.12.2013, on the Company’s own property consisting of residential 1 buildings, located in a complex of buildings for seasonal use "Marina Cape", built in the land with ID 00833.5.409 (zero zero eight three tree point five point four zero nine ) Aheloy, Municipality Pomorie, Burgas Region, area "Prechistvatelnata”.

### **4). TB “Investbank” AD – according to the decisions of the general meetings of the bondholders**

In fulfillment of the obligations in relation to the renegotiation of the conditions of the bond loan and for securing receivables of the bondholders was in favour of the bank – a trustee on the bond issue TB “Investbank” AD was established second in line contractual mortgage over 24 (twenty four) independent commercial premises with a total built-up area of 7 835, 99 sq.m., owned by the Company, located in the complex Marina Cape, Aheloy, Municipality Pomorie, Burgas Region. The mortgage contract was signed under the Deed for establishment of mortgage from 01.09.2010, № 158, Volume IV, registration № 3289, № case 732/2010 at a notary Gergana Nedina.

## 6. Intangible non-current assets

The intangible assets of the Company are long-terms assets that include acquired software licenses. Their book value for the current reporting period can be presented as follows:

Intangible assets	License ‘000 BGN	Total ‘000 BGN
<b>Carrying value</b>		
Balance at January 01, 2017	3	3
Balance at December 31, 2017	<b>3</b>	<b>3</b>
<b>Depreciation and impairment</b>		
Balance at January 01, 2017	(3)	(3)
Balance at December 31, 2017	<b>(3)</b>	<b>(3)</b>
<b>Book value at December 31, 2017</b>	<b>-</b>	<b>-</b>

Intangible assets	License ‘000 BGN	Total ‘000 BGN
<b>Carrying value</b>		
Balance at January 01, 2016	3	3
Newly acquired assets	-	-
Written-off assets	-	-
Balance at December 31, 2016	<b>3</b>	<b>3</b>
<b>Depreciation and impairment</b>		
Balance at January 01, 2016	(3)	(3)
Written-off assets	-	-
Depreciation	(-)	(-)
Balance at December 31, 2016	<b>(3)</b>	<b>(3)</b>
<b>Book value at December 31, 2016</b>	<b>-</b>	<b>-</b>

## 7. Investments in subsidiaries

The financial assets of the Company are comprised only of its investment in the servicing subsidiary “Marina Cape Management” EOOD (MCM).

Name of the subsidiary	31.12.2017 ‘000 BGN	% ownership	31.12.2016 ‘000 BGN	% ownership
“Marina Cape Management” EOOD	5	100	5	100
<b>Total</b>	<b>5</b>	<b>100</b>	<b>5</b>	<b>100</b>

The financial information for the subsidiary company – “Marina Cape Management” EOOD could be presented as it follows:

31.12.2017 ‘000 BGN	31.12.2016 ‘000 BGN
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Assets	5 263	6 404
Liabilities	4 906	6 292
Revenues	3 571	1 904

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According to the agreement from 27.12.2017, Intercapital Property Development ADSIC and “Marina Cape Properties” Ltd have agreed, that the debt of ICPD ADSIC to “Marina Cape Properties” OOD in the amount of 6 444 263,63 euro is extinguished by giving instead of execution. As part of the execution, it is provided that till 31<sup>st</sup> March 2018, ICPD ADSIC will transfer to “Marina Cape Properties” OOD all company’s shares of the capital of “Marina Cape Management” OOD.

## **8. Leases**

### **8.20. Finance leases as a lessee**

The Company has acquired under finance leases land and buildings under construction. The net book value of assets acquired under finance leases amounted to BGN 9 953 thousand. The assets are included in the groups "Land" and "Assets under construction" from "Property, Plant and Equipment" (see note 6).

The Company has signed two contracts for financial leasing with "Bulgaria Leasing" EAD dated 17 December 2013 and with "VEI Project" AD dated 30 December 2011. Finance lease liabilities are secured by the respective assets acquired under finance leases.

On 17 December 2013 the Company has concluded a contract with Bulgaria Leasing EAD for financial leasing of real estate subject to which is the investment project “Grand Borovets”, property of Intercapital Property Development ADSIC. The lease price of the contract was EUR 2 927 724.36, excl. VAT. Initially, the lease price was to be paid within a 2-year period for the lease payments or 24 monthly lease installments, with grace period of 6 months and annual interest of 9%. By mutual agreement between the parties in 2014, the repayment of lease payments was extended to 20.12.2019, as a result of which the leasing price was changed to EUR 3 183 968.45 excluding VAT. The parties signed a new agreement in the end of 2016, whereby the maturity date was extended until 20.12.2021 as a result of which, the leasing price was altered to 3 411 746 euro excl. VAT. Under this contract of December 17, 2013 ICPD has transferred by notary ownership of land with ID 65231.918.189 located in Samokov, Sofia region, and built in the property building representing hotel apartment complex service sites with ID 65231.918.189.2, the lessor "Bulgarian Leasing" EAD. As a result, and under the conditions of a leaseback agreement ICPD has received by the lessor possession of the properties subject to finance lease contracts.

According to the contract between “VEI Project” AD and Intercapital Property Development ADSIC from 30.12.2011 and the signed annexes from 28.12.2012, 30.01.2013 and 01.02.2016, ICPD ADSIC pays the price of the real estates (spa center and bowling hall), the subject of the Contract, under the conditions of a deferred payment maturing from 30<sup>th</sup> January 2021 till 30<sup>th</sup> September 2021.

On 01.02.2016 the Company signs an Annex to contract with ICPD ADSIC on 30.12.2011, according to which the parties have agreed the deadline at which ICPD ADSIC follows to pay to “VEI Project” AD the rest of the sales value of the real estates, subject of the Contract, which till 01.02.2016 is in the amount of Euro 841 989.39 includ. VAT, to be extended till 30.09.2021, as in

the condition of the deferred payment is determined an interest rate in the amount of 6.5% per annum, which starts to be applied, beginning from 01.02.2016 and payment of the rest of the sales price: at 9 equal monthly payments

Leases include fixed lease payments and a purchase option at the end of the last year of the lease term. Leases are irrevocable, but do not contain other restrictions.

The Company has signed two contracts for operating leases for rental of office space in Sofia with IP Intercapital markets AD and an individual. Operating lease agreements of the Company contain no provisions for contingent rent. None of the operating lease agreements contains an option to renew or purchase escalation clauses or restrictions regarding dividends, further leasing or additional debt.

## **9. Work in progress**

Information about the work in progress by projects is presented in the following table:

<b>Work in progress</b>	<b>31.12.2017</b>	<b>31.12.2016</b>
	<b>'000 BGN</b>	<b>'000 BGN</b>
“Marina Cape” project*	328	1 056
<b>Total:</b>	<b>328</b>	<b>1 056</b>

As of 31.12.2016 the Company accounts BGN 1 056 thousand as “work-in-progress”. The Company accounts as “work-in-progress” only the project Marina Cape. Due to the completion of the construction works in Zone 4 in the vacation complex “Marina Cape” and the conclusion of the completion works on all the rest properties in the project, as of 31.12.2016 there are no properties in “Marina Cape” that are reported in the item “work-in-progress”. The reported value of BGN 1 056 thousands represents expenses for property sales – brokerage commissions and advertising expenses for the real estate properties in the “Marina Cape” project amounting to BGN 795 thousand, which shall be recognized as expenditures in the moment of the income recognition (the final transfer of the ownership on the properties or the establishment of the right to use over them), and BGN 261 thousand, which are reported as work in progress, representing equipment bought for the restaurants on site.

## **10. Trade receivables**

The more significant receivables from customers are reported in the following table,.

<b>Receivables from customers</b>	<b>31.12.2017</b>	<b>31.12.2016</b>
	<b>'000 BGN</b>	<b>'000 BGN</b>
Local and foreign individuals	224	188
Vila OOD	10	10
Bulgarian Bo EOOD	-	8
Grand Borovetz 2013 EOOD	3068	3703
BG Invest Properties AD	19	19
Other	35	610
<b>Total</b>	<b>3356</b>	<b>4538</b>

The customers' receivables represent non-paid amounts on contracts for transfer of real estate properties in the vacation complex "Marina Cape" which are due to "Intercapital Property Development" ADSIC. The book value of the trade receivables is assumed for reasonable approximate estimate of their fair value.

All trade receivables of the Company are revised for impairment indications. The Company does not have expectations that the due customers payments will not be paid pursuant to the advanced concluded contracts. Despite that 93.3% of them have arised more than 360 days ago.

All commercial receivables are exposed to a credit risk. The Company`s management does not identify a specific credit risk as much as the trade receivables consist of many different clients.

## **11. Advances granted**

Supplier receivables are presented in the following table:

<b>Supplier receivables</b>	<b>31.12.2017 BGN '000</b>	<b>31.12.2016 BGN '000</b>
Ventenergy Ltd.	-	131
Technos Ltd.	-	47
Others	3	50
<b>Total</b>	<b>3</b>	<b>228</b>

## **12. Other receivables**

	<b>31.12.2017 '000 BGN</b>	<b>31.12.2016 '000 BGN</b>
<b>Non-current:</b>		
Deferred expenses under a leaseback	447	893
<b>Non-current other receivables</b>	<b>447</b>	<b>893</b>
<b>Current:</b>		
Deferred expenses under a leaseback	446	448
Others	125	194
<b>Current other receivables</b>	<b>571</b>	<b>642</b>

The deferred expenses during the reporting period have been formed in connection with the leaseback agreement signed by the Company on 17.12.2013. The result from the sale of lease back agreement is a financial lease. In accordance with Art. 20 of IAS 17 "Leases" at the beginning of the lease term of a finance lease the Company recognizes the object of the lease as an asset and a liability in the statement of financial position by an amount equal to the fair value of the leased property at the beginning of the lease term or if lower - the present value of the minimum lease payments, each determined at the beginning of the lease. Initial direct costs incurred by the Company - Fees for research, initial fee, etc. added to the amount recognized as an asset. The result of the sale and leaseback is a finance lease. Therefore from transactions financial result is not definitive. It is not recognized for the period of the transaction in the

profits or losses of the two parties to this transaction, in order to meet the requirement of true and fair view.

The difference between the sale proceeds and the carrying value of the asset sold is negative (i.e. the carrying amount is greater in size than the achieved selling price and the proceeds received from the sale), resulting in a realized loss. It should be recognized not once and instantly – at the date of the transaction but to be deferred and amortized over the entire period or period of the lease. In the contract for leasing ICPD realized a loss - the difference between the carrying amount of the asset and the leasing price – in the amount of BGN 4 274 thousand. This cost under IAS 17 is not final but should be rescheduled for the duration of the lease.

### **13. Money**

The money of the Company is kept in depository bank – UniCredit Bulbank AD, St. Nedelya Branch. Most of it is in Euro because of the sales` specificity and the clients` structure.

The money includes the following components:

	<b>31.12.2017</b>	<b>31.12.2016</b>
	<b>‘000 BGN</b>	<b>‘000 BGN</b>
Money in cash and in bank accounts:		
• BGN		32
• EUR	14	40
Total	<b>14</b>	<b>34</b>

### **14. Shareholder’s equity** **Share capital**

The Company`s registered capital consists of 6 011 476 ordinary shares with a nominal value of 1 BGN per share. All the shares are with a right of dividend and liquidation quota and each of them gives a right of one vote in the General shareholders` meetings of the Company.

	<b>31.12.2017</b>	<b>31.12.2016</b>
	<b>‘000 BGN</b>	<b>‘000 BGN</b>
Issued and fully paid shares		
- at the beginning of the year	6 011 476	6 011 476
- issued during the year	-	-
Total shares, authorized	<b>6 011 476</b>	<b>6 011 476</b>

### **Revaluation reserve of assets**

According to the theory of business valuation, in the most general the indications for a fair value of a given property could be calculated using three approaches: market approach, income approach and expenditure approach.

By using the expenditure and market approach the objects are treated as they are in the moment of the valuation. When using the income approach in the valuation of the objects are added also the perspective of their growth – their yield.

In accordance with the objective of the valuations as the most approximate approach of calculating the market value is adopted the market approach. In that case the price of the property is formed on the base of research of realized deals on the market with comparable real estate. The market approach looks for the supposed market price of properties that are similar in quality to the valuated one.

When calculating the market value of the property is used information about three properties similar to the valuated one. These properties have to in the same location and also it is need to there are realized deals with them in the last six months during the previous year. The sale prices of the three properties are adjusted with an area coefficient that removes differences between them.

In the calculating of the evaluation is used the following:

- Information obtained by the inspection of the object;
- Information and documents about the legal status of the object;
- Newsletters, price lists and reference books of official editions of Ministry of the Regional Development and Public Works, Bulgarian Construction Chamber and etc;
- Information from appraiser`s personal experience.

With Resolution of the Board of Directors the revaluation of the company`s assets is assigned to the independent appraisers – “Dobi 02” Ltd., the result of which is reported in the annual financial statements of the Company.

## **15. Liabilities to financial institutions**

	<b>31.12.2017</b>	<b>31.12.2016</b>
	<b>‘000 BGN</b>	<b>‘000 BGN</b>
<b>Bonds</b>		
Incl. long-term liabilities	-	3 912
Incl. short-term (up to 1 year) liabilities	4 407	978
Incl. interest payments	160	
<b>Total</b>	<b>4 407</b>	<b>4 890</b>
<b>Bank Loans</b>		
Incl. long-term liabilities	16 095	-
Incl. short-term (up to 1 year) liabilities	386	23 446
<b>Total</b>	<b>16 481</b>	<b>23 446</b>

The next table presents the loans received by the Company from financial institutions divided by liabilities as of 31.12.2017 according to the obligation`s maturity.

<b>Name of the credit institution</b>	<b>Short-term obligation in EUR</b>	<b>Long-term obligation in EUR</b>	<b>Maturity</b>
Futures Capital	-	8229046	31.12.2027
Texim Bank AD	37500	-	20.12.2018

On 18.08.2017, "Intercapital Property Development" ADSIC, was informed by Marina Cape Properties OOD that according to a signed contract for the transfer of claims, Marina Cape Properties OOD, with UIC 204372411 transferred to Futures Capital, AD, with UIC 201624613 the principal receivables under the investment credit agreements executed with "Piraeus Bank Bulgaria" AD, namely the Investment Loan Agreement No. 1236/2007 of 19.10.2007, the Investment Loan Agreement № 736/2008 from 07.07 .2008 and Investment Loan Agreement №

327/2009 of 14.12.2009. The total value of the transfer the principal receivables on principal amounts is in the amount of EUR 8 229 045,97.

The main details of the Company's credits as of 31.12.2017 are presented in the following table:

<b>Name of the credit institution</b>	<b>Interest</b>	<b>Maturity</b>	<b>Currency</b>
Futures Capital	3,8%	31.12.2027	EUR
Texim Bank AD	BIR in EUR + 1.25%	20.12.2018	EUR

## **16. Bond issue**

The Company issued bond loan in 2007 which was secured only by insurance against financial risk issued by Euroins AD. In the memorandum for the placement of the issue it is stated that the funds were to be used mainly for purchase of land property in Sofia. The bond loan was issued on August 14, 2007. The initial term was 3 years. The amount of the issue was 5 million EUR (9 779 thousand BGN). The principal was to be paid at the end of the period, and the interests to be paid semi-annually. The coupon was 9%. The Company's total expenditure was estimated to about 9% annually. The initial maturity date of the issue was August 14, 2010.

### **On August 6<sup>th</sup>, 2010 the General Meeting of the company's bondholders was held that took the following decisions:**

They agreed to restructure the corporate bond issue with ISIN code BG2100019079, by renegotiating the terms of the issue as follows:

1. Extension of the issue by 36 months (from 14.08.2010 to 14.08.2013);
2. Interest on the bond is amended to 9.5% and it is payable every three months;
3. Scheme to repay the bond loan is amended as follows:
  - 3.1. Collateral under Art. 100h, para. 1 of the Civil Insurance Act: Insurance of Euro Ins AD, covering the risk of non-payment by the Issuer of interest or principal for the new term of the issue.
  - 3.2. Additional collateral: Establishment of second mortgage on 7 835.99 sq. M. Marina Cape, Aheloy (described in the appendix to the written materials), in favor of the trustee of the bondholders CB Investbank AD within not more than one month after the date of this General Meeting.

The Company has the right to repay all or part of the remaining principal on the bonds ahead of schedule. Repayment may be made only on an interest payment date and after one month's notice to the bondholders. The minimum amount the company can repay in part and early is EUR 250,000 or 5% of the initial issue amount.

In addition, in connection with the conclusion of insurance with Euro Ins AD covering the risk of non-payment by the Company of interest or principal for the new term of the issue, and in order to secure the receivable of Euro Ins AD to Intercapital Property Development of an amount of EUR 84,000, representing a part of the value of the insurance premium payable under the insurance policy, amounting to EUR 104,000, a first contractual mortgage was established in favor of Euro Ins SA on two separate sites with a total built-up area an area of 108.65 square meters, own t of the Company, located in Marina Cape town. Aheloy, Municipality Pomorie, Burgas. The mortgage contract was concluded under a Notarial Deed for the Establishment of a Contractual Mortgage of August 9, 2010, No 81, Volume IV, Reg. No. 2884, Case No 656/2010 to Notary Gergana Nedina.

**At the General Meeting held on 6<sup>th</sup> February 2013** of the bondholders of Intercapital Property Development ADSIC was adopted proposal to restructure the Company's bond loan.

The proposed agenda was as follows:

Giving consent for rescheduling and restructuring of the obligations on emission ISIN code BG2100019079, through renegotiation of some of the conditions as follows:

1. Extension of the term of the issue by 60 months (as from 14 August 2013 until 14 August 2018);
2. Interest (coupon) payments within the extended term:
  - 2.1. The interest rate following 14 Feb 2013 until the maturity date shall be decreased to 7.25% per annum, payable at 3-month period on the dates as per the Table enclosed in the invitation;
  - 2.2. The interest payments due following 14 February 2013 until the maturity date shall be calculated by gradual decrease of the interest rate by 0.25%. The exact amount of the interest payments as well as the terms for applying the new gradual decrease of the interest rate are specified in the invitation and in the table enclosed;
3. The Issuer shall be still entitled to make a total or partial early repayment of the outstanding principal of the debenture loan. That repayment might be effected only on a date of an interest payment. The minimum amount that might be early repaid must equal at least one amortisation payment due for the respective period;
4. Security of the issue: Except for the insurance provided by Insurance Company Euro Ins and the second-tier mortgage, the Issuer shall be obligated to provide new additional collaterals such as: to sign a supplement to the insurance policy provided by Euro Ins and to create a first-tier mortgage on an own real property as described in the invitationn
5. Other terms and ratios:
  - 5.1. Ratio between Equity and Secured Debt: The Company undertakes to maintain a ratio between equity and secured debt, calculated by dividing the balance sheet equity capital of the Company to the sum of all collateralized obligations, not lower than 0.10 (zero point ten) until the full payment of the bonds of this issue.
  - 5.2. Maximum ratio of Liabilities to Assets according to their book value: The Company undertakes to maintain a maximum ratio of the book value of its Liabilities to the book value of its Assets at an amount of not more than 0.95 (zero point ninety five) until the full payment of the bonds of this issue.

At a meeting of the Board of Directors of BSE-Sofia AD under Minutes № 8/11.02.2013, it was decided to change the parameters of the issue of debentures of the Company admitted it to Segment of the BSE-Sofia. The changes were reflected on BSE with effect from 13.02.2013.

With the establishment of a mortgage ICPD fulfill its obligation to provide collateral on outstanding, as of the date of the meeting, bond loan of € 3,500,000 (three million five hundred thousand euro), together with interest due.

**On 11/02/2015, there was a General Meeting of Bondholders** of corporate bonds with ISIN code BG2100019079, issued by the ICPD. Pursuant to Art. 214 para. 1 of the CA General Meeting of Bondholders was convened by the representative of the bondholders "InvestBank" AD. At the meeting the following decisions on relevant agenda items were adopted.

**On the first point** was given for rescheduling and restructuring of the obligations on the issue of corporate bonds with ISIN code BG2100019079, by renegotiating the terms of the issue as follows:

1. Extension of the issue 24 months (from 14.08.2018 years - until 14.08.2020 years);
2. Scheme for repayment of the bond loan and interest shall be amended as follows:
  - 2.1. The principal shall be paid to the following contributions:

2015	2016	2017	2018	2019	2020
Date/amount (euro)					
14.02./ 62 500	14.02./ 62 500	14.02./ 125 000	14.02. /125 000	14.02./ 187 500	14.02./ 250 000
14.05./ 62 500	14.05./ 62 500	14.05./ 125 000	14.05./ 125 000	14.05./ 187 500	14.05./ 250 000
14.08./ 62 500	14.08./ 62 500	14.08./ 125 000	14.08./ 125 000	14.08./ 187 500	14.08./ 250 000
14.11./ 62 500	14.11./ 62 500	14.11./ 125 000	14.11./ 125 000	14.11./ 187 500	

3. Interest payments are due under the following conditions:

3.1. The agreed interest rate on the bond loan will be reduced to 6% on an annual basis from 14.02.2015.

3.2. The possibility of applying a step for the reduction of the interest rate on the bond loan in the amount of 0.25% (zero point twenty five percent) is retained only on condition that there is prompt payment of interest and principal payments, until the interest rate reaches 5% annually. The principles and interest payments are considered to be paid on time in the event that the total amount payable for the preceding quarter, was ordered to the bank account of the "Central Depository" AD servicing debenture loan payments no later than two working days before the corresponding maturity.

3.3. Interest on the debenture loan is payable quarterly on the dates indicated in the table below:

Date of interest payment	Days in interest period	Days	Interest rate	Amount of due interest (EUR)
14.02.2015	92	365	7,00%	52 932
14.05.2015	89	365	6,00%	42 976
14.08.2015	92	365	5,75%	41 668
14.11.2015	92	365	5,50%	38 990
14.02.2016	92	366	5,25%	36 291
14.05.2016	90	366	5,00%	33 043
14.08.2016	92	366	5,00%	32 992
14.11.2016	92	366	5,00%	32 206
14.02.2017	92	365	5,00%	31 507
14.05.2017	89	365	5,00%	28 955
14.08.2017	92	365	5,00%	28 356
14.11.2017	92	365	5,00%	26 781
14.02.2018	92	365	5,00%	25 205
14.05.2018	89	365	5,00%	22 860
14.08.2018	92	365	5,00%	22 055
14.11.2018	92	365	5,00%	20 479
14.02.2019	92	365	5,00%	18 904

14.05.2019	89	365	5,00%	16 002
14.08.2019	92	365	5,00%	14 178
14.11.2019	92	365	5,00%	11 815
14.02.2020	92	366	5,00%	9 426
14.05.2020	90	366	5,00%	6 148
14.08.2020	92	366	5,00%	3 142

4. If, within three (3) days before the expiration of 30 days from the maturity of any outstanding principle and/or interest payment the issuer fails to submit to the bondholders' trustee the document that the payment is made in a bank account "Central Depository" AD, servicing debenture loan payments, it is considered to be the event of default on the bond issue as "Investbank" AD may exercise their rights of bondholders' trustee, under contract with the Issuer and the relevant laws.

5. The bondholders agree that any payment under the terms of the issue within the period prescribed under p. 3 will be considered for payment under the issue and will not give rise to any adverse effect on the Issuer. Payment to meet the conditions of the previous sentence can be done both by the Issuer and by any third party.

6. All other conditions issued by "Intercapital Property Development " ADSIC bond issue, except as expressly stated above shall remain in force and retain their effect as originally agreed, respectively renegotiated by the General Meeting of Bondholders.

As the Company failed to pay the interest due on 14.08.2017 in the amount of EUR 32,610 and principal amounting to EUR 125,000, the Company informed Investbank AD, FSC, BSE and the public that on the grounds of Item 1, Section VII of Insurance Policy No 29 - 0000 - 1753 / 06.08.2010, as amended by Addendum No 4 of 11.02.2015, it will be considered that on September 13, 2017 at 17:30, there is an insurance an event such as the occurrence of an insured event in respect of a specific three-month principal payment and / or contractual interest does not automatically lead to the occurrence of an insured event with regard to subsequent payments. By letter with reference number No 2989/6 of 03.10.2017, EUROINS AD as an insurance policyholder concluded in connection with the provision of collateral to the bondholders on the bond issue issued by ICPD ADSIC, shall notify Investbank AD, in its capacity of trustee of the bondholders acting as insured person and secured creditor of the receivables of all bondholders, and ICPD ADSIC, that from 00.00 h on 03.10.2017 the insurer terminates the insurance contract with the insurance policy number 29-0000- 1753 from 11.02.2015.

The notification states that in connection with an application filed by "Investbank" AD No 2989/4 / 28.09.2017 for payment of an insurance indemnity for the aforementioned insurance policy for a total amount of EUR 157,609.59 (one hundred and fifty seven thousand six hundred nine euro 59 eurocents) representing the amount of the due interest and principal payment under the bond loan as of 14.08.2017, the "EUROINS" AD will exercise its right under Art. 364, para. 4 CC in the event of a terminated insurance policy and will apply a 50% (fifty percent) reduction of the indemnity for an insurance event occurring prior to the date of termination of the insurance contract.

As a result of October 5<sup>th</sup> 2017, a partial depreciation payment of EUR 78,805 was made on the bond issue issued by the "Intercapital Property Development" ADSIC, which matured on 14.08.2017. The amount for the above amortization payment on the debenture loan issued by "Intercapital Property Development" ADSIC was deposited in a bank account of the Central Depository AD of EUROINS AD as an insurance policyholder concluded in connection with the provision of collateral to the bondholders of the bond issue issued by the Company.

On 24.10.2017 “Intercapital Property Development” ADSIC was informed by Investbank AD that the trustee declared the entire debenture loan of the issuer due early due to the fact that the dropping of the contracted debt insurance collateral constituted a material breach of the issuer's obligations under the prospectus as well as due to the circumstance, that the overdue of part of the obligations on the issue (due on 14.08.2017) lasts more than 30 days.

At a meeting of the Board of Directors of BSE-Sofia AD under Protocol No. 55 / 26.10.2017 and on the grounds of Art. 39, para. 1, item 4 of Part III Rules for admission to trading by the Rules and Regulations of BSE-Sofia AD, the Board of Directors of BSE-Sofia has finally ceased the registration of the issue of bonds issued by ICPD ADSIC with effect from 27.10.2017.

## 17. Trade payables

The next table represents the most significant obligations of ICPD ADSIC as of 31.12.2017.

	<b>31.12.2017</b>	<b>31.12.2016</b>
	<b>‘000 BGN</b>	<b>‘000 BGN</b>
Midia AD	-	1 850
Telelink AD	-	344
IP Intercapital Markets AD	269	384
Marina Cape Properties OOD	156	-
Water Supply and Sewerage EAD, Burgas	183	121
Others	838	1 758
<b>Total</b>	<b>1 446</b>	<b>4 457</b>

These liabilities have arisen in relation to concluded contracts for construction of the “Marina Cape” project – a complex of residential buildings for seasonal usage and for the “Borovets Grand” project.

## 18. Advances received from Clients

Client Payables include

<b>Trade accounts payable (to clients)</b>	<b>31.12.2017</b>	<b>31.12.2016</b>
	<b>‘000 BGN</b>	<b>‘000 BGN</b>
Foreign individuals	2 829	5 192
Guarantee deposits from clients under contracts	1 740	1 921
Midia AD	481	481
Others	139	189
<b>Total</b>	<b>5 189</b>	<b>7 783</b>

## 19. Tax payables

	<b>31.12.2017</b>	<b>31.12.2016</b>
	<b>‘000 BGN</b>	<b>‘000 BGN</b>
VAT for payment	64	48

Amounts due under personal taxes law	2	4
Obligations for property tax and garbage tax		
Waste	64	23
<b>Total</b>	<b>130</b>	<b>75</b>

## 20. Amounts due to the staff and social security entities

	<b>31.12.2017</b>	<b>31.12.2016</b>
	<b>'000 BGN</b>	<b>'000 BGN</b>
Salaries Due	108	129
Social contributions due	13	12
<b>Total</b>	<b>121</b>	<b>141</b>

## 21. Other Liabilities

	<b>31.12.2017</b>	<b>31.12.2016</b>
	<b>'000 BGN</b>	<b>'000 BGN</b>
<b>Current:</b>		
Cessioned liabilities under loan contract with Grand Borovets 2013 EOOD	318	1 488
Liabilities towards VEI Project	1 647	1 615
Liabilities towards BGI Imo EAD	5 331	5 291
Liabilities towards interests on loans	777	628
AVI CONSULT	1850	
Others	788	663
<b>Total</b>	<b>10 711</b>	<b>9 685</b>

## 22. Sales Revenues

Sales revenues include:

	<b>31.12.2017</b>	<b>31.12.2016</b>
	<b>'000 BGN</b>	<b>'000 BGN</b>
Sale of investment properties	3 364	
Management of investment properties	362	380
<b>Total</b>	<b>3 726</b>	<b>380</b>

## 23. Other revenues

	<b>31.12.2017</b>	<b>31.12.2016</b>
	<b>'000 BGN</b>	<b>'000 BGN</b>

Written-Off Revenues	14 869	2 455
Other revenues	154	13
<b>Total</b>	<b>15023</b>	<b>2 468</b>

A main part of the written-off liabilities (BGN 12,604 thousand) represents written-off interest on loans to Piraeus Bank Bulgaria AD. According to an agreement dated 27.12.2017, Intercapital Property Development ADSIC and Marina Cape Properties OOD have agreed that the debt of ICPD ADSIC to Marina Cape Properties OOD, acquired as a result of the Cessia of the obligation to Piraeus Bank Bulgaria AD, in the amount of EUR 6 444 263.63, is extinguished by giving instead of execution, and until 31.03.2018:

- to be paid an amount of EUR 30 000;
- ICPD ADSIC transferred to Marina Cape Properties OOD all the shares in the capital of Marina Cape Management EOOD.

In 2017 an additional BGN 1 170 thousand was written-off from the obligation of Intercapital Property Development ADSIC to “Grand Borovetz 2013” EOOD, arising under the Agreement for the purchase and sale of receivables under Credit Agreement № 716 / 18.09.2008 and Contract № 717 / 18.09.2008 (Cessia) dated 18.12.2013, by virtue of which the creditor of DSK Bank EAD has transferred its receivables under the two credit agreements referred to above to a total amount of EUR 5,832,886.58 to “Grand Borovets 2013” EOOD.

Another part of the amount of BGN 1 057 thousand are income from written-off liabilities to customers/ counterparties of the Company, with a higher percentage of liabilities being written-off in connection with the expiration of a limitation period. Other earnings include the partial amortization payment in the aggregate amount of EUR 78,805 on the bond issue issued by the Intercapital property Development ADSIC, which matured on 14.08.2017 on the part of the "EUROINS" AD on the insurance contract 29-0000-1753 of 11.02.2015.

## **24. Expenses for materials**

Expenses for materials include:

	<b>31.12.2017</b>	<b>31.12.2016</b>
	<b>‘000 BGN</b>	<b>‘000 BGN</b>
Expenses for electricity and heat	(52)	(57)
Other	(1)	-
<b>Total</b>	<b>(53)</b>	<b>(57)</b>

## **25. Expenses for external services**

Expenses for external services include:

	<b>31.12.2017</b>	<b>31.12.2016</b>
	<b>‘000 BGN</b>	<b>‘000 BGN</b>
Maintenance and management services	(302)	(224)
Fees and other services	(133)	(74)
Consulting expenses	-	(41)

Rent	-	(1)
Telecommunication services	(18)	(21)
Other	(103)	(37)
<b>Total</b>	<b>(556)</b>	<b>(398)</b>

This individual financial statements has been audited by specialized audit firm "Audit Advisers" Ltd. and registered auditor and manager Ophelia Slavkova. The remuneration of the auditor is for an independent financial audit of the financial statements. During the year, the registered auditor has provided other services. This disclosure is in compliance with the requirements of Art. 38 para. 5 of the Accounting Act.

## **26. Expenses for salaries and social security contributions**

The salary expenses include:

	<b>31.12.2017</b>	<b>31.12.2016</b>
	<b>'000 BGN</b>	<b>'000 BGN</b>
Expenses for salaries	(34)	(35)
Expenses for social security contributions	(6)	(5)
<b>Total</b>	<b>(40)</b>	<b>(40)</b>

## **27. Other expenses**

Other expenses include:

	<b>31.12.2017</b>	<b>31.12.2016</b>
	<b>'000 BGN</b>	<b>'000 BGN</b>
Loss of sale of leaseback	(446)	(446)
Written-Off Receivables	(1178)	(1)
Expenses from sales	(467)	-
Other	(230)	(35)
<b>Total</b>	<b>(2 321)</b>	<b>(482)</b>

## **28. Book value of sold assets**

In the item "Book value of sold assets" the Company recognizes the book value of the expropriated investment properties.

Expropriation of investment property may arise in case of sale or establishment of a right of use. When determining the date of expropriation of investment property the Company applies the criteria pursuant to IAS 18 related to recognition of revenue from the sale of goods or takes into account the relevant guidance in the Appendix to IAS 18.

## **29. Financial Expenses**

The receivables and expenses for the given periods can be analyzed as shown below:

<b>31.12.2017</b>	<b>31.12.2016</b>
<b>'000 BGN.</b>	<b>'000BGN.</b>

Interest expenses	(6 428)	(1 753)
Other financial expenses ( fees for renegotiating bank loans and other penalties)	-	(2)
<b>Total Net financial receivables and expenses</b>	<b>(6 428)</b>	<b>(1 755)</b>

### 30. Changes in the fair value of the investment properties

	31.12.2017 ‘000 BGN	31.12.2016 ‘000 BGN
Negative revaluations	(4 811)	(189)
Positive revaluations	304	
<b>Net change in the fair value of investment</b>	<b>(4 507)</b>	<b>(189)</b>

### 31. Tax Expense

The financial result of the Company is not subject to income tax, in accordance with Art. 175 of the law on Corporate Tax

### 32. Earning/(Loss) per share

Basic earning per share and diluted earnings per share calculated, as the used numerator is the profit/ (loss) attributable to shareholders of the Company.

The weighted average number of shares used for basic earnings per share as well as net income/ (loss) attributable to holders of ordinary shares.

	31.12.2017 ‘000 BGN	31.12.2016 ‘000 BGN
Profit / (loss), attributable to shareholders (in ‘000 BGN)	96	(127)
Weighted Average Number of Shares (in ‘000 BGN)	<u>6 011</u>	<u>6 011</u>
Basic Earnings per Share (in ‘000 BGN.)	(0.02)	(0.02)

For the purpose of dividend distribution a transformation of the financial result is made in accordance with p. 5.14 from the accounting policy.

### 33. Related party Transactions/ Insider Transactions

Insiders to the company include the shareholders of the Company, key management personnel and other related persons described below.

If not explicitly mentioned the insider transactions have not been made under special provisions, and no guarantees have been given or received.

#### a. Transactions with subsidiaries

31.12.2017	31.12.2016
------------	------------

	<u>'000 BGN.</u>	<u>'000 BGN.</u>
<b>Sale of goods and services</b>		
- sale of services to "Marina Cape Mangment" EOOD	362	380
<b>Purchase of Goods and Services</b>		
- purchase of services from "Marina Cape Management" EOOD	302	224
<b>Receivables from subsidiaries</b>	<b>31.12.2017</b>	<b>31.12.2016</b>
	<b>'000 BGN.</b>	<b>'000BGN.</b>
<b>Current:</b>		
"Marina Cape Management" EOOD	2 701	2 918
<b>Total current receivables from related Parties</b>	<b>2 701</b>	<b>2 918</b>
<b>Liabilites towards subsidiaries</b>	<b>31.12.2017</b>	<b>31.12.2016</b>
	<b>'000 BGN.</b>	<b>'000BGN.</b>
<b>Current:</b>		
"Marina Cape Management" EOOD	2 712	2 947
<b>Total current Liabilities towards related parties</b>	<b>2 712</b>	<b>2 947</b>

#### b. Transactions with key managemet personell

The key management personell of the Company includes the Borad of Directors. The remunerations of the key management personell include the following expenses:

	<u>31.12.2017</u>	<u>31.12.2016</u>
	<u>'000 BGN.</u>	<u>'000 BGN.</u>
Remunerations towards individuals	34	35
Remunerations towards Aheloy 2012	41	41
<b>Total:</b>	<b>75</b>	<b>76</b>

**Liabilities of the company towards members of the Borad of Directors are the following:**

	<u>31.12.2017</u>	<u>31.12.2016</u>
	<u>'000 BGN.</u>	<u>'000 BGN.</u>
Remunerations towards individuals	108	129
Remunerations towards Aheloy 2012	118	98
<b>Total:</b>	<b>226</b>	<b>227</b>

#### 34. Conditional liabilities

Arbitration Case No. 10/2015 on the inventory of the Arbitration Court for Commercial Disputes - Bourgas, formed by MIDIA AD for payment of an amount by agreement of 25.10.2010 between MIDIA AD and INTERCAPITAL PROPERTY DEVELOPMENT ADSIC. The cost of the claims is BGN 500,000 as a partial claim of BGN 6,430,457.72. By judgment of 29.02.2016, the claims are fully respected and the decision entered into force. Based on the decision, a writ of execution was issued against "INTERCAPITAL PROPERTY DEVELOPMENT" ADSIC. On 07.03.2016 "INTERCAPITAL PROPERTY DIVELOPMANT" ADSIC was informed that the claim was transferred to AVI CONSULT EOOD, UIC 131397729. On 05.09.2017, Intercapital Property Development ADSIC, with UIC

131397743, received notice on enforcement case No 850/2016 on the inventory of the private enforcement agent Ivanka Mindova, registered with Registry No 704 of CPEA, informing the company, that by a decree of 19.07.2016 on the enforcement case AVI CONSULT EOOD 131397729 was joined as a creditor for the amount of the amount due to the amount of BGN 542 773.75 including the following amounts: principal; BGN 161 736.95 - indemnification; BGN 238 263.05 - contractual interest rate; BGN 26,125.15 - legal costs, BGN 157.00 - fees and expenses related to the enforcement case.

### **35. Risk management policy and objectives**

The company regularly analyzes the liquidity of assets and liabilities.

In the ordinary course of business, the Company is exposed to various financial risks, the most important of which are: market risk (including currency risk, fair value risk and price risk), credit risk, liquidity risk and interest rate risk, tangible cash flows. General risk management focuses on the difficulties in managing liquidity and minimizing the potential negative effects that may affect the financial performance and the company's performance

The structure of the Company's financial assets and liabilities as of 31<sup>st</sup> December by category is shown below. It includes all financial assets in a group - "loans and receivables", and all financial liabilities in one group - "other financial liabilities":

	<b>31.12.2017</b>	<b>31.12.2016</b>
	<b>'000 BGN</b>	<b>'000 BGN</b>
<b>Credits and receivables</b>		
<b>Financial assets</b>		
Receivables from customers and other receivables	3 927	5 180
Receivables from group companies	2 701	2 918
Financial assets	14	34
<b>Total</b>	<b>6 642</b>	<b>8 132</b>
<b>Other financial liabilities</b>		
<b>Financial liabilities</b>		
Liabilities from group companies	2 830	3 045
Liabilities to suppliers and other liabilities	40 421	52 184
<b>Total</b>	<b>46 642</b>	<b>58 132</b>

*(a) Market risk*

(-) Currency risk. The expenses of the Company are denominated in BGN or in EUR. In BGN denominated expenses are associated with the construction and operation of real estate. The cost of the real estate most often is negotiated in BGN. On the other hand, almost all other earnings are negotiated in EUR. In a currency board and fixed exchange rate of the lev against the euro, currency risk for the company is virtually none.

The Company is exposed to a currency risk in the transactions with financial assets denominated in a foreign currency.

In conducting of transactions in foreign currency there are currency gains and expenses which are included in the Income Statement. During the reporting period the Company has not been exposed to currency risk, in so far as no positions have occurred in currencies other than the lev and euro.

The policy on currency risk management applied by the company is not to have substantial operations and do not maintain open positions in foreign currencies other than Euro.

(-) Price risk. The risk of increase in inflation is associated with reduction of real purchasing power of economic actors and the possible impairment of assets denominated in local currency. The currency board controls money supply, but external factors (e.g. rising oil prices) could put a pressure on upward price levels. After accession to the EU there is pressure on the convergence of price levels to those of other EU countries, i.e. inflation in the country is higher than the average rate of inflation in the Member States of the EU. Although the rate of inflation in the country slowed as a result of the recent global economic and financial crisis, it remains higher than the average inflation rate in the EU. At present and in general the mechanism of the currency board provides assurance that inflation will remain under control and there will be no adverse impact on the economy, and particularly on the Company.

The Company may be exposed to risks of rising prices of some individual commodities, materials and services related to the activity and the risk of lowering the price of owned properties.

- Risk of rising price of land property. Parcels of landed properties are a major "staples" used in the Company for the construction of real estate. Significant increases in land prices could reduce the profits of the Company and opportunities to pursue business. The possibility of loss is eliminated from the policy of the Company, under which property is sold (in advance) only after the landed property or the right to build on it be purchased or agreed (in the case of the provision of compensation).
- Risk of lower real estate prices. Evolution of market prices of real estate and specifically the assets owned by the Company changes their net value and net asset value per share. The reduction in market prices of real estate and the income from them would reduce revenues, respectively would reduce the Company's financial results, of which 90% is distributed as a dividend.

The financial crisis in Bulgaria led to a sharp decrease in the economic activity, a drop in foreign investments, an increase in the unemployment rate and a credit crunch. This has a strong negative effect on the real estate sector leading to a sharp drop in demand, price levels and activity. A large number of developers and construction companies were faced with the challenge of trying not to cease their activities or fall into bankruptcy, which had a negative effect on the employment in the sector.

The Company is exposed to a risk of lower real estate prices from the time it incurs any expenses related to their construction to the moment of their sale. The Company aims to mitigate that risk by incurring construction expenses (including purchase of land plots) only when there is actual market demand for the specific properties to be built and offered for sale.

- Risk of changes in other prices related to the construction. Most of the prices of materials and services related to construction are changing in the same direction with the change in prices of "output products" - real estate. This is because on them the greatest impact is demand from contractors in the local market. One major exception to this rule is the price of steel. It is affected much more by world prices rather than local factors. Because of that reason, a situation could arise in which steel prices are rising while output prices are not changed or decreased. Bulgarian economy in recent years shows an increasingly strong correlation with the EU economies. In

particular, the global financial and economic crisis affects almost equally and simultaneously (with a difference of several months) the global property markets and the market in Bulgaria. We expect prices of construction materials and services to run in parallel with the percentage movement of property prices.

The decrease of the real estate market prices and the income from them would lead to a decrease in the revenues, respectively a reduction of the financial result realized by the Company, of which 90% are distributed in the form of a dividend. The financial crisis in Bulgaria has led to a sharp decline in economic activity, a decline in foreign investment, a rise in unemployment and limited lending. This has had a significant negative impact on the real estate sector, resulting in a strong drop in demand, price levels and activity in the sector. Many investors and builders in the country were faced with the challenge of not ending their business and / or not falling into insolvency, which also had a negative impact on employment in the construction sector. In 2017 there was a revival in the real estate sector, and the 2018 experts' forecasts are also optimistic, and in their opinion this year is expected to further intensify this market with the largest growth again in the segment of agricultural land. Expectations for growth of land transactions are mainly based on the fact that the country has good conditions for the development of modern agriculture, which is also contributed by the European programs. Although there are still many obstacles to rapid recovery in the real estate and construction sectors, there is currently a stabilization of the market alongside the increase in banks' lending activity. The Company is at risk of lowering real estate prices from the moment they incur expenses for their construction until their sale. The Company seeks to reduce this risk by incurring construction costs (including acquisition of plots) only if there is proven market interest in the particular properties to be built and offered for sale.

(-) Risks associated with increased competition. Following the significant growth of the Bulgarian property market in recent years before the global financial crisis, in the sector have entered many new players, including many foreign investors. As a result, we have witnessed increasing competition among construction companies, real estate companies with special investment purpose, commercial banks, individuals and others. This reflects the investment costs of the Company and may reduce the attractiveness of investments in securities of Intercapital Property Development ADSIC.

As a result of the current global financial situation, development of the real estate market has made a significant change that began during the last months of 2008.

In the current conditions of timid and slow recovery from the economic crisis and of increased competition, the Company is looking to find still undervalued sectors or market niches where it could achieve a profitability that is higher than the sector average. In addition the Company is adding other value added services to its clients including the possibility of a delayed payment up to 5 years.

*(b) Interest rate risk of cash flow and fair value*

The Company may be exposed to interest rate risk if there is a mismatch between the type (fixed or floating income, respectively interest) of assets and liabilities. The main assets of the Company are property (land or those under construction). It could be assumed that these assets are fixed-price or income because their price is not affected directly by changes in interest rates. The Company will seek to finance these assets in debt instruments, which also be fixed rate. Where this is not possible or not favorable to the company, it may use and a floating-rate debt. In these cases the Company will constantly analyze forecasts on interest rates. In case of significant risks of a large increase in interest rates, which have a significant negative impact on profits of the company, it may use derivatives or other financial instruments to hedge this risk.

*(c) Credit risk*

In its activity the Company may be exposed to credit risk when it pays in advance (grant advances) to its suppliers or has sales claims (including the sale with deferred payment). Company policy provides for the avoidance of advances as far as possible. Yet when these are imposed (e.g. purchase of windows, elevators and etc. for buildings under construction), the Company will analyze in detail and depth the reputation and financial condition of the suppliers and if necessary will require a bank and other guarantees of good performance. Similarly, in the conduct of sales of goods and services and providing loans to customers, the Company will focus on the credit standing of counterparties.

*(d) Liquidity risk*

Liquidity risk arises in connection with securing funding for the activities of the Company and its management positions. It has two dimensions - risk the Company will not be able to meet its obligations when they fall due and the risk of being unable to realize company assets at an appropriate price and within acceptable limits.

The company aims to maintain a balance between maturity of funding and flexibility of the use of funds with varying maturity structure.

The company aims to reduce the risks of a shortage of cash by taking investments and works only when the financing is secured with its own funds, advances from customers or borrowings. Company monitors closely the financial markets and the opportunities for raising additional funds (own or debt). The company seeks to shorten the time to raise such funds as necessary.

In the current financial crisis when liquidity risk is becoming more relevant to existing businesses, Intercapital Property Development ADSIC seeks to reduce the negative impact thereof, and because of that it has taken the following measures:

- The Company ensures strict observance of their contracts with financial institutions to exclude the possibility to request early repayment;
- Priority work with financial institutions (banks) in good financial health;
- Optimization of costs, review the investment program;
- Actively seeking buyers for the properties offered by the Company to generate cash and maintain adequate cash

### **36. Policy and procedures for capital management**

The Company's objectives associated with the capital management are as follows:

- to ensure capacity so that the Company can continue to exist in compliance with the going concern principle; and
- to ensure adequate return for the shareholders by determining the price of their products and services in accordance with the level of risk.

The Company manages the capital structure and makes the necessary adjustments in accordance with changes in the economic environment and risk characteristics of the respective assets.

To maintain or adjust the capital structure, the Company may change the amount of the dividends distributed to the shareholders, may return capital to the shareholders, may issue new shares and may sell assets in order to reduce its liabilities.

### **37. Information regarding events after the balance sheet reporting date**

By the letter with reference number № 5146-1453/06.03.2018 "Investbank" AD have been informed "Intercapital Property Development" ADSIC for the General meeting of bondholders

of the corporate bond issue issued by the public company on 14.03.2018, accompanied by a copy of the invitation for convening the meeting. Details of the meeting are disclosed in the Annual management report.

Date: 20.03.2018

Drafted: \_\_\_\_\_  
/Optima Audit AD/

Executive Director: \_\_\_\_\_  
/Velichko Klingov/