

Financial Consolidated Report

INTERCAPITAL PROPERTY  
DEVELOPMENT ADSIC

31<sup>st</sup> December 2019

## Report for the financial condition

	Notes	31.12.2019 '000 BGN	31.12.2018 '000 BGN
<b>Assets</b>			
<b>Non-current assets</b>			
Property, plant and equipment	6	15 148	13 306
Investment property	7	23 695	23 746
Deferred tax assets		21	21
Non-current assets		<b>38 864</b>	<b>37 073</b>
<b>Current assets</b>			
Materials and goods	9	946	942
Work-in-progress	10	293	295
Tax receivables	13	10	10
Other receivables	11	5 128	5 118
Cash and cash equivalents	12	126	98
Current assets		<b>6 503</b>	<b>6 463</b>
<b>Total assets</b>		<b>45 367</b>	<b>43 536</b>

Date: 12.03.2020

Drafted:

/Optima Audit AD/



Executive Director:

/Velichko Klingov/



According to an audit report:

/Nicolay Polinchev/



## Report for the financial condition

	Notes	31.12.2019 '000 BGN	31.12.2018 '000 BGN
<b>Shareholders' equity</b>			
Share capital	14.1	6 011	6 011
Issue premiums	14.2	7 651	7 651
Revaluation reserve	14.2	7 381	5 878
General reserves	14.2	1	1
Accumulated loss, net		(22 049)	(19 760)
<b>Total shareholder's equity</b>		<b>(1 005)</b>	<b>(219)</b>
<b>Liabilities</b>			
<b>Non-current liabilities</b>			
Liabilities to financial institutions	15.2	11 735	16 095
Financial leasing	15.1	1 396	1 454
Other liabilities	18	2 316	1 320
<b>Total non-current liabilities</b>		<b>15 447</b>	<b>18 869</b>
<b>Current liabilities</b>			
Liabilities to financial institutions	15.2	-	997
Financial leasing	15.1	134	342
Bonds	15.3	-	4 838
Customers' advance receivables	16	2 766	5 643
Short-term liabilities to related parties		280	404
Social security payables and salaries payables	17	92	954
Tax Liabilities	18	27 653	11 708
Other liabilities		30 925	24 886
<b>Total current liabilities</b>		<b>46 372</b>	<b>43 755</b>
<b>Total liabilities</b>		<b>45 367</b>	<b>43 536</b>
<b>Total shareholder's equity and liabilities</b>			

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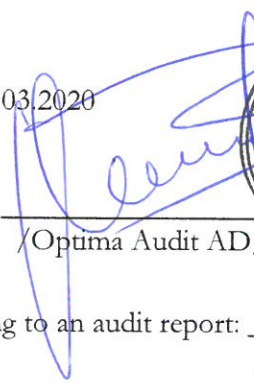



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## Comprehensive Income Statement

	Notes	31.12.2019 '000 BGN	31.12.2018 '000 BGN
Revenue from sales	19	1 839	3 556
Other revenue	20	1 430	76
Expenses for materials	21	(431)	(335)
Expenses for external services	22	(713)	(558)
Expenses for salaries	23	(613)	(361)
Expenses for depreciation	6	(85)	(89)
Other expenses	24	(1 139)	(3 252)
<b>Operating profit/loss</b>		<b>288</b>	<b>(963)</b>
Financial expenses	29	(2 329)	(1 611)
<b>Changes in the fair value of the investment property</b>	30	<b>55</b>	<b>(1 716)</b>
<b>Pre tax Net profit/ (loss)</b>		<b>(1 986)</b>	<b>(4 290)</b>
<b>Net Profit / (loss)</b>		<b>(1 986)</b>	<b>(4 300)</b>
<b>Earnings per share</b>	32	<b>(0.33)</b>	<b>(0.72)</b>
<b>Other comprehensive income</b>			
<b>Profit from revaluation of land</b>		<b>1 503</b>	<b>(85)</b>
<b>Total annual comprehensive income</b>		<b>(483)</b>	<b>(4 385)</b>

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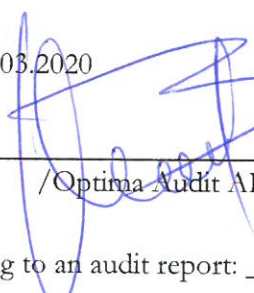
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## Statement of Changes in Equity

All amounts are in '000 BGN	Share Capital	Premium Reserves	Other Reserves	Accumulated Earnings (loss)	Total equity
<b>Balance 1<sup>st</sup> January 2018</b>	6 011	7 651	5964	(15 460)	4 166
Profit/Loss				(4 300)	(4 300)
<b>Other comprehensive income</b>					
Revaluation of non-current assets					
<b>Total comprehensive income</b>			(85)		(85)
<b>Balance 31<sup>st</sup> December 2018</b>	6 011	7 651	5879	(19 760)	(219)
Profit/Loss				(1 986)	(1 986)
<b>Other comprehensive income</b>					
Revaluation of non-current assets			1 503		1 503
<b>Total comprehensive income</b>			1 503	(2 289)	(786)
<b>Balance 31<sup>st</sup> December 2019</b>	6 011	7 651	7 382	(22 049)	(1 005)

Date: 12.03.2020

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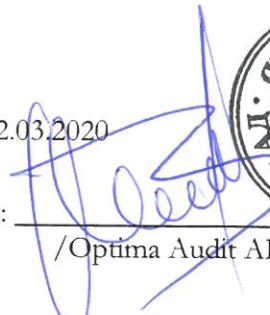
According to an audit report: /Nicolay Polinchev/



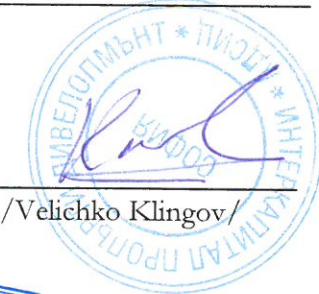
## Cash Flow Statement

Notes	31.12.2019 '000 BGN	31.12.2018 '000 BGN
<b>Cash flow from operating activities</b>		
Customers` receivables	1 494	1 510
Suppliers` payables	(1 775)	(1 087)
Salaries and social securities payables	(779)	(433)
Taxes paid / refunded (excluding corporation tax)	(431)	(97)
Corporate taxes paid	(63)	
Other operating income	2 082	33
Other operating loss	(26)	
Net cash flow from operating activities	<u>502</u>	<u>(74)</u>
<b>Cash flow from investment activity</b>		
Acquisition of property, plant and equipment	-	-
Net cash flow from investment activity	<u>-</u>	<u>-</u>
<b>Cash flow from financing activity</b>		
Proceeds on loans	-	-
Payments of interest, fees and commissions	-	-
Payments on leases	(474)	-
Net cash flow from financing activity	<u>(474)</u>	<u>-</u>
<b>Net change in cash and cash equivalents</b>	<b>28</b>	<b>(74)</b>
Cash and cash equivalents at the beginning of the period	98	172
<b>Cash and cash equivalents at the end of the period</b>	<b>15 126</b>	<b>98</b>

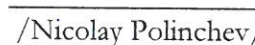
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# Explanatory Notes

## **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 Petya Georgieva Yordanova

The Investor Relations Director is Radostina Panteleeva.

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 2018) 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 loss for the period in the amount of BGN 483 thousand and a positive cash flow from operating activities in the amount of BGN 502 thousand. The sum of current liabilities exceeds the sum of current assets by BGN 24 120 thousand as of 30.12.2019. These circumstances indicate that there is significant uncertainty that may raise significant doubt about the Company's ability to continue operating as a going concern without the support of the owners and other sources of financing.

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

- The Company has rescheduled its short-term liabilities to the creditor banks, which will significantly improve the financial position of the Company in terms of the ratio between current assets and liabilities.
- The company pursues a policy of cost optimization, inventories and other elements of working capital. The expected result of these measures is a significant reduction in stock levels, which will improve the Company's liquidity position and working capital.
- In addition to the current time, the Board of Directors of ICPD REIT is considering the possibility of launching a capital raising procedure. According to the decision of the General Meeting of the ICPD, the Board of Directors is authorized to take actions for raising the capital up to BGN 50 000 000

The management believes that based on the forecasts for the future development of the Company and the measures taken, as well as due to the continued financial support from the owners, it will be able to continue its activity and settle its obligations without sale of assets and without significant changes in his activity.

### **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.

### **Implementation of new and revised International Financial Reporting Standards (IFRS)**



### New and amended standards and interpretations

The accounting policies of the Company are consistent with those applied in the previous reporting period, except for the following amended IFRSs, adopted from 1 January 2019.

The Company applies IFRS 16 for the first time. The nature and effect of changes resulting from the adoption of this new accounting standard are described below.

For the first time in 2019, some other amendments and interpretations apply, but they have no impact on the Company's financial statements. The Company has not adopted standards, clarifications or amendments that have been published but have not yet entered into force.

#### IFRS 16 Leasing

IFRS 16 was published in January 2016 and replaces IAS 17 Leases, IFRIC 4 Determining whether an Arrangement Contains Leases, SIC-15 Operational Leasing Incentives and SIC-27 Assessing the Content of Operations Including the Legal Form of Leasing. IFRS 16 establishes the principles for the recognition, measurement, presentation and disclosure of a lease, and requires lessees to report all leases under the same balance sheet model similar to accounting for financial leases under IAS 17.

The Company has adopted IFRS 16 on the modified retrospective application method with an effective date of January 1, 2019. In accordance with this method, the standard is applied retrospectively and the cumulative effect of its initial application is recognized on the date of initial application. The first-time adoption of IFRS 16 has no effect on the financial statements of the company.

#### Leases that were previously classified as financial leases

The Company does not change the initial carrying amounts of recognized assets and liabilities at the date of initial application with respect to leases that were previously classified as financial (i.e., leased assets and leasing liabilities are equal to leased assets and liabilities). recognized under IAS 17). The requirements of IFRS 16 have been applied to these leases with effect from 1 January 2019.

#### Leases that have previously been accounted for as operating leases

The Company recognizes rights to use and lease liabilities for those leases that were previously classified as operating, except for short-term and low-value asset leases.

The Company has also implemented the following practical measures:

- relied on its assessment of whether the leases were burdensome, immediately before the date of initial application
- applied the exemption for short-term leases to leases with a period ending within 12 months from the date of initial application of the standard
- used the information available to determine the lease term when the contract contains options for extending or terminating the lease

#### IFRIC 23 Uncertainty in the treatment of income taxes

The Interpretation shall enter into force for annual periods beginning on or after 1 January 2019, with earlier application being permitted. The Interpretation addresses accounting for income taxes when tax treatment is related to uncertainty affecting the application of IAS 12. The Interpretation provides guidance on uncertain tax treatments individually or together, audits by tax authorities, the applicable method of reporting uncertainty and accounting. changes in facts and circumstances. The adoption of the amendment had no impact on the financial position or performance of the Company.

#### IFRS 9 Financial Instruments: Classification and Measurement (Amendments): Characteristics of Early Repayment with Negative Compensation

The amendments, effective for annual periods beginning on or after 1 January 2019, while allowing for earlier application, suggest an amendment to IFRS 9 for specific financial assets that would otherwise have contractual cash flows that are only principal and interest payments but do not qualify for eligibility solely as a result of the availability of early repayment characteristics with



negative compensation. In particular, for financial assets with early repayment characteristics that could result in a negative offsetting, the changes require the financial asset to be measured at amortized cost or at fair value through other comprehensive income, depending on the valuation of the business model, on which he clings. The adoption of the amendment had no impact on the financial position or performance of the Company.

#### IAS 28 Investments in Associates (Amendments): Long-term Interests in Associates and Joint Ventures

The amendments are effective for annual periods beginning on or after 1 January 2019, allowing for earlier application. The amendments clarify that IFRS 9 Financial Instruments is applicable to long-term investments in associates and joint ventures, which are inherently part of the net investment in associates or joint ventures but are not subject to the equity method. An entity applies IFRS 9 to these long-term holdings before applying IAS 28. In applying IFRS 9, an entity does not take into account the adjustments in the carrying amount of long-term holdings that result from the application of IAS 28. The adoption of the amendment did not affect the financial position or performance of the Company.

#### IAS 19 Employee Benefits (Amendments): Amendments, Acronyms and Amendments to the Plan

The amendments are effective for annual periods beginning on or after 1 January 2019, allowing for earlier application. The amendments require entities to use updated actuarial assumptions to determine current service cost and net interest for the remaining period of the annual reporting period after a change in plan, abbreviation or settlement. The amendments also clarify how the accounting for the change in plan, abbreviation or settlement affects the asset ceiling requirements. The adoption of the change did not affect the Company's financial position or results of operations.

#### Annual Improvements to IFRS Cycle 2015-2018

In the 2015-2018 cycle of the IFRS Annual Improvement Project, IASB issues amendments that will become effective for annual periods beginning on or after January 1, 2019. A summary of changes to the relevant standards is presented below:

- IFRS 3 Business Combinations and IFRS 11 Joint Arrangements - an Interpretation on the Accounting for Previously Shares in Joint Ventures;
- IAS 12 Income Taxes - an explanation of the effects of income taxes on payments in respect of financial instruments classified as equity;
- IAS 23 Borrowing Costs - an explanation of eligible borrowing costs.

The adoption of the amendment had no impact on the financial position or performance of the Company. Published standards that are not yet in force and have not been previously adopted. The following are briefly published standards that are not yet effective or have not previously been applied by the Company at the date of issue of these financial statements. It is disclosed that the disclosures, financial position and results of operations can reasonably be expected to be affected when the Company first adopts these standards. This is expected to happen when they take effect.

#### IFRS 17: Insurance Contracts

The standard is effective for annual periods beginning on or after January 1, 2021, allowing for earlier application, provided that the entity also applies IFRS 15 Revenue from Contracts with Customers and IFRS 9 Financial Instruments. IFRS 17 Insurance Contracts establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts issued. It also requires similar principles to be applied to reinsurance contracts and investment contracts with additional, non-guaranteed income. The purpose of the standard is to require companies to provide information related to insurance contracts in a manner that accurately reflects those contracts. This information provides the basis for the users of financial statements

to evaluate the effect that contracts within the scope of IFRS 17 have on the financial position, financial results and cash flows of the company. The standard is not applicable to the Company.

#### **IFRS 3 Business Combinations (Amendments): Definition of Business**

The amendments are effective for annual periods beginning on or after 1 January 2020, allowing for earlier implementation. The amendments clarify minimum business requirements and limit the definition of business. The amendments also remove the assessment of whether market participants are able to change the missing elements, provide guidance to assist companies in assessing whether the process acquired is material and introduce an optional fair value concentration test. The Company will analyze and evaluate the effects of the changes on its financial position or results of operations.

#### **Amendments to IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors: Definition of Materiality**

The amendments are effective for annual periods beginning on or after 1 January 2020, allowing for earlier implementation. The amendments clarify the definition of materiality and how it should be applied by providing practical guidance that has been included in other IFRSs to date. The changes also clarify that materiality depends on the nature and significance of the information. The Company will analyze and evaluate the effects of the changes on its financial position or results of operations.

#### **Conceptual framework for financial reporting**

The IASB publishes the Amended Financial Reporting Conceptual Framework on March 29, 2019, effective for annual periods beginning on or after January 1, 2020. The Conceptual Framework presents the concepts of financial reporting, development of standards, guidance on the preparation of consistent accounting policies and guidelines for understanding and interpreting standards. The major changes introduced in the revised Conceptual Framework for Financial Reporting relate to the valuation concept, including the factors to be considered in selecting the valuation basis, and the presentation and disclosure concept, including which income and expenses are classified in other comprehensive income. The conceptual framework also provides updated definitions of assets and liabilities and criteria for recognizing them in the financial statements. The Company will analyze and evaluate the effects of the changes on its financial position or results of operations.

#### **Reform of interest rate benchmarks - IFRS 9, IAS 39 and IFRS 7 (Amendments)**

The amendments are effective for annual periods beginning on or after 1 January 2020 and must be applied retrospectively. Earlier application is also permitted. In September 2019, the International Accounting Standards Board (IASB) published amendments to IFRS 9, IAS 39 and IFRS 7, ending phase 1 of its work in response to the effects on financial reporting of interbank interest rate reform. Phase 2 will focus on problems that may arise when interest rates are replaced by risk-free interest rates. The changes posted address issues that occur while replacing existing interest rates with alternative interest rates. The effects on specific cases of hedge accounting under IFRS 9 Financial Instruments and IAS 39 Financial Instruments: Recognition and Measurement in which a future oriented analysis is required are addressed. The amendments provide for temporary relief applicable to hedging requirements, where compliance with these requirements is directly influenced by the benchmark reform. The changes allow hedge accounting to continue in the period of uncertainty until the replacement of existing benchmarks with alternative risk-free rates. Amendments to IFRS 7 Financial Instruments have also been made: Disclosures requiring the submission of additional information on hedge uncertainty resulting from the reform. The Company will analyze and evaluate the effects of the changes on its financial position or results of operations.

### **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  $1\text{EUR} = 1.95583\text{ BGN}$ .

### **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 valued 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.

The subsequent assessment is performed at acquisition cost, less the accumulated amortization and impairment losses. The impairments are reported as an expense and are recognized in the Income Statement for the respective reporting period.

The subsequent expenses arising in relation to the intangible assets after the initial recognition are recognized in the Income Statement for the period in which they arise unless there is a possibility to help the asset generate more than the initially expected future economic benefits, and when these expenses can be measured reliably and assigned to the asset. If these two conditions are fulfilled the expenses are added to the cost of the asset.

The depreciation is calculated by using the straight-line method on the estimated useful life of the separate assets as follows:

- software                      2 years
- others                         6.5 years

The depreciation is included in “expenses for depreciation and impairment of non-financial assets” in the statement for comprehensive income.

The trade brands and licenses are reported at a historical price. They have limited useful life and are recorded at their cost less the accumulated amortization.

The Company performs a careful estimation when determining if the criteria for initial recognition of the expenses as an asset are met. The estimation of the management is based on all the existing information as of the date of the Report for Financial Condition. In addition, all the activities related to the development of a non-current intangible asset are observed and controlled by the management.

The chosen threshold of essence of the non-current intangible assets owned by the Company is 700 BGN.

### **3.6 Property, plant and equipment (non-current tangible assets)**

The property, plant and equipment are initially valued at their cost, including the cost of acquisition as well as all directly attributable costs needed to bring the asset into working condition.



The subsequent valuation of land and building is performed at revaluation, which is the fair value at the date of revaluation less the accumulated depreciation and impairment losses. The impairments are recognized in the Comprehensive Income Statement and are reported as an expense in equity (revaluation reserve), if they are not preceded by previously accrued costs. Upon sale or disposal of the revalued asset, the remaining revaluation reserve is reflected the expense of retained earnings.

The subsequent valuation of all other asset groups is performed at acquisition cost less the accumulated depreciation and impairment losses. The impairments are reported as an expense and are recognized in the Income Statement and other comprehensive income for the respective reporting period.

The subsequent expenses related to a certain asset of property, plant and equipment are added to the book value of the asset when it is probable that the company shall have economic benefits 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**

At the effective date of the lease, the Company assesses whether the lease represents or contains a lease. Namely, whether the contract transfers the right to control the use of the identified asset for a certain period of time.

The company as a lessee

The Company applies a uniform approach for the recognition and measurement of all leases, except for short-term leases (ie leases with a lease term of up to 12 months) and leases of low value assets. The Company recognizes lease obligations to pay the lease payments and rights to use assets that represent the right to use the assets.

Assets with usable assets

The Company recognizes assets that are eligible for use from the beginning of the lease date (ie the date on which the underlying asset is available for use). Assets held for use are measured at cost less accumulated amortization and impairment losses, and adjusted for any revaluation of the lease liability. The cost of the acquisition of the rights to use the assets includes the amount of the recognized lease obligations, the initial direct costs incurred and the lease payments made on or before the lease date, an estimate of the costs to be borne by the lessee in dismantling and relocation. the asset, restoration of the site on which it is located, or restoration of the asset to the condition required under lease terms, less any leasing incentive received a.

If, at the end of the lease term, the ownership of the leased asset is transferred to the Company, or the acquisition price reflects the exercise of the purchase option, the depreciation is calculated using the expected useful life of the asset.

Assets with rights of use are also subject to impairment.

Leasing liabilities

From the commencement date of the lease, the Company recognizes lease liabilities measured at the present value of the lease payments that will be made for the lease term. Lease payments include fixed installments (including fixed payments substantially) less any leaseable incentives, variable lease payments that depend on an index or interest rate, and amounts expected to be paid on guarantees. for residual value. Leasing payments also include the cost of exercising a purchase option that is reasonably certain to be exercised by the Company, as well as payments of cancellation fees if the lease term reflects the exercise by the Company of an option for termination.

Variable lease payments that do not depend on an index or interest rate are recognized as an expense (unless made for inventory) during the period when the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Company uses an intrinsic interest rate on loans at the beginning of the lease because the interest rate on the lease cannot be reliably determined. After the start date, the amount of the lease liabilities increases with interest and decreases with the lease payments made. In addition, the carrying amount of the lease liability is revalued if there is a modification, a change in the lease term, a change in the lease payments (for example, changes in future payments resulting from a change in the index or the interest rate used to determine these lease payments). or a change in the valuation of the option to buy the underlying asset.

Short-term and low-value asset leases

The Company applies the exemption from the recognition of short-term leases in respect of its short-term leases whose lease term is 12 months or less than the start date and which do not contain an option to purchase. It also applies the exemption from the recognition of low-value asset leases for office equipment leases, which are considered low value leases. Short-term leases and low-value asset lease payments are recognized as an expense on a straight-line basis over the lease term.

Accounting policy for accounting for leases before January 1, 2019 - The Company as a lessee

The Company classifies a lease as a finance lease if it transfers substantially all the risks and rewards of ownership of the leased asset. At the beginning of the lease term, financial leasing is recognized as an asset and liability in the balance sheet at an amount equal to the fair value of the leased asset at the beginning of the lease or, if lower, the present value of the minimum lease payments. Lease payments are apportioned between the financial cost and the decrease in the lease liability so as to obtain a constant interest rate on the remaining balance of the liability. Financial expenses are recognized directly in the income statement.

Assets acquired under financial lease terms are amortized over the useful life of the asset. However, if there is no reasonable degree of certainty that the Company will acquire the ownership of them by the end of the lease term, the assets are amortized over the shorter of the two periods, the asset's useful life or the lease term.

Lease payments under operating leases are recognized as an expense in profit or loss on a straight-line basis over the term of the lease.

### **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.

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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.

#### **1.1 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.

### **3.17 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.

### **3.18 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.

### **Determination of the lease term for contracts with options for renewal and termination - The Company as a lessee**

The Company defines the lease term as the irrevocable lease term, together with any periods covered by the option to extend it, if it is reasonably certain that the option will be exercised or any periods covered by the option for termination of the lease, if it is reasonably certain that the option will not be exercised.

### **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	Buildings	Machinery	Computer and other equipment	Expense s for the acquisition of Assets	Total
	'000 BGN	'000 BGN	'000 BGN	'000 BGN	'000 BGN	'000 BGN
<b>Book Value</b> <i>The notes to this financial report from p.8 to p.48 constitute an inseparable part of it.</i>					23	
Balance as of 1 <sup>st</sup> January 2018	5 873	503	111	996	7 073	14 556
Newly acquired assets			3			3
Modification as a result of				(297)		(297)

	Land	Buildings	Machinery	Computer and other equipment	Expenses for the acquisition of Assets	Total
	'000 BGN	'000 BGN	'000 BGN		'000 BGN	'000 BGN
<b>Book Value</b>						
Balance as of 1 <sup>st</sup> January 2019	5 788	503	114	699	7 073	14 177
Newly acquired assets				93		93
Modification as a result of revaluation	1 634				200	1 834
Written-off assets	-	-	-		-	-
<b>Balance as of 31<sup>st</sup> December 2019</b>	<b>5 788</b>	<b>503</b>	<b>114</b>	<b>792</b>	<b>7 273</b>	<b>16 104</b>
<b>Depreciation</b>						
Balance as of 1 <sup>st</sup> January 2019		(179)	(96)	(596)		(871)
Written-off depreciation	-					-
Depreciation		(20)	(2)	(63)		(85)
Balance as of 31 <sup>st</sup> December 2018	-	(199)	(98)	(659)		(956)
<b>Book Value as of 31<sup>st</sup> December 2018</b>	<b>7 422</b>	<b>304</b>	<b>16</b>	<b>133</b>	<b>7 273</b>	<b>15 148</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 31.12.2019 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 2019.

The next table presents the changes in the value of the investment property in 2019 and 2018.

31.12.2019  
'000 BGN



<b>Book value as of January 01, 2019</b>	<b>23 746</b>
Newly acquired assets	-
Written-off assets	(106)
Net profit from changes in fair value	55
<b>Book value as of December 31, 2019</b>	<b>23 695</b>
	<b>31.12.2018</b>
	<b>'000 BGN</b>
<b>Book value as of January 01, 2018</b>	<b>26 699</b>
Newly acquired assets	346
Written-off assets	(1 583)
Net profit from changes in fair value	(1 716)
<b>Book value as of December 31, 2018</b>	<b>23 746</b>

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.

### **Investment property for sale**

Revenue from the sale of investment property is recognized when the Group estimates at fair value the payment or consideration received or receivable, taking into account the amount of all trade discounts and quantitative discounts made to date. When replacing similar assets that have a similar price, the exchange is not considered a revenue generating transaction. Revenues are recognized at the time of their realization and expenses are accrued in accordance with the principle of comparability with the realized income.

In accordance with the fair value model, all investment property is measured at fair value at 31 December of the reporting year, with the difference between the carrying amount and fair value recognized as income or expense from the revaluation of investment property in the income statement. Depreciation of investment property is not charged.

The Group derecognizes its investment property when sold or permanently decommissioned if no economic benefits are expected from their sale. Gains or losses arising from disposal or disposal are recognized in the Income Statement (comprehensive income) and are determined as the difference between the net proceeds of the sale and the carrying amount of the asset.

## 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:

<b>Intangible assets</b>	<b>License</b>	<b>Total</b>
	<b>'000 BGN</b>	<b>'000 BGN</b>
<b>Carrying value</b>		
Balance at January 01, 2019	66	66
Balance at December 31, 2019	<b>66</b>	<b>66</b>
<b>Depreciation and impairment</b>		
Balance at January 01, 2019	(66)	(66)
Balance at December 31, 2019	<b>(66)</b>	<b>(66)</b>
<b>Book value at December 31, 2019</b>	<b>-</b>	<b>-</b>

<b>Intangible assets</b>	<b>License</b>	<b>Total</b>
	<b>'000 BGN</b>	<b>'000 BGN</b>
<b>Carrying value</b>		
Balance at January 01, 2018	<b>66</b>	<b>66</b>
Balance at December 31, 2018	66	66
<b>Depreciation and impairment</b>		
Balance at January 01, 2018	(63)	(63)
Written-off assets		
Depreciation	(3)	(3)
Balance at December 31, 2018	<b>(66)</b>	<b>(66)</b>
<b>Book value at December 31, 2018</b>	<b>-</b>	<b>-</b>

## 7. Inventories

The inventories recognized in the consolidated statement of financial position can be analyzed as follows:

	<b>31.12.2019</b>	<b>31.12.2018</b>
	<b>'000 BGN</b>	<b>'000 BGN</b>
Materials	594	593
Goods	352	349
<b>Inventories</b>	<b>946</b>	<b>942</b>

	<b>31.12.2019</b>	<b>31.12.2018</b>
	<b>'000 BGN</b>	<b>'000 BGN</b>
Lubricants	8	8

Main Materials	586	585
<b>Total:</b>	<b>594</b>	<b>593</b>

Basic materials form the content of the product of labor or play a major role in the operation. These are materials of low shelf life that are directly invested in the value of the tourist service. These are bed linen, electrical appliances, folding temporary beds, curtains and curtains for serviced apartments, spare parts, metal waste containers, hygienic materials and more.

	31.12.2019 ‘000 BGN	31.12.2018 ‘000 BGN
Warehouse-furnishing goods	227	227
General warehouse goods	125	122
<b>Total:</b>	<b>352</b>	<b>349</b>

## 8. Work in progress

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

Work in progress	31.12.2019 ‘000 BGN	31.12.2018 ‘000 BGN
“Marina Cape” project*	293	295
<b>Total:</b>	<b>293</b>	<b>295</b>

As of December 31, 2019, only construction costs related to brokerage commissions and advertising for real estate from Marina Cape have been reported as unfinished construction amounting to BGN 293 thousand (2018: BGN 295 thousand), which will be recognized at the time of recognizing revenue (final transfer of ownership or establishment of right of use).

## 9. Trade receivables

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

	31.12.2019 ‘000 BGN	31.12.2018 ‘000 BGN
Local and foreign persons	38	56
Grand boroves 2013 EOOD	3 035	3 035
Advance payments	378	349
Receivables customers	254	139
Receivables from Aheloy 2012	35	35
Others	71	35
<b>Trade Receivables</b>	<b>3 811</b>	<b>3 649</b>
Rescheduled costs under a leaseback contract	-	446
Pre-paid Expenses	93	0
Others	1 224	1 023
<b>Other receivables</b>	<b>1 317</b>	<b>1 469</b>
<b>Current trade and other receivables</b>	<b>5 128</b>	<b>5 118</b>

Receivables from clients represent unpaid, remaining payments due to the Group on transferred real estate from a complex of residential buildings for seasonal use "Marina Cape", as well as due

fees for the maintenance of these properties. The carrying amount of trade receivables is considered to be a reasonable estimate of their fair value.

The Group has receivables from customers, which are current in nature and have a maturity of 180 to 360 days. The carrying amount of trade receivables is considered to be a reasonable estimate of their fair value.

All trade receivables of the Group are reviewed for impairment. The Group has no expectation that the funds due from customers will not be paid in accordance with the previously concluded contracts. All trade receivables are subject to credit risk.

## 10. Money

Cash and cash equivalents includes the following components:

	<b>31.12.2019</b>	<b>31.12.2018</b>
	<b>'000 BGN.</b>	<b>'000 BGN.</b>
Bank and cash in hand:		
- cash	88	84
- deposits	25	12
- bloked	13	2
<b>Cash and cash equivalents</b>	<b>126</b>	<b>98</b>

## 11. Tax receivables

	<b>31.12.2019</b>	<b>31.12.2018</b>
	<b>BGN '000</b>	<b>BGN '000</b>
VAT recovery	10	10
<b>Total</b>	<b>10</b>	<b>10</b>

## 12. 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>31.12.2019</b>	<b>31.12.2018</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>

1. Premium reserve

According to business valuation theory, in general terms, indications of the fair market value of a property can be obtained by adopting three basic approaches: a market approach; income approach and cost approach.

When using the cost and market approach, objects are considered static, that is, as they were at the time of the valuation. In the approach of income, the determined value of the assessed entity also takes into account the prospect of its development - its profitability.

Considering the purpose of the valuations, the valuation team considered the object of the Comparative Value Method (market approach) as the most appropriate for determining the market value.

The price of the property in this case is in principle formed on the basis of the studies on the free market transactions with similar real estate. The comparative value method looks for the estimated market price of properties close in quality to valuations.

In determining the market value of the property, information was used on three similar properties with characteristics close to valuations, located in the same area, for which transactions were made in the last six months of the previous year. The sale prices of the three compared properties are aligned with the characteristics of the property being valued, adjusted by an area coefficient taking into account their differences.

The following was used in the assessment:

Information obtained during the inspection of the site;

Information and documents concerning the legal status of the site;

Newsletters, price lists and directories from official publications of MRDPW, Bulgarian Construction Chamber, etc.;

Information from the evaluator's own experience.

By a decision of the Board of Directors, the valuation of the assets of the parent company is assigned to an independent appraiser - Dobby-02 Ltd.

	<b>31.12.2019</b>	<b>31.12.2018</b>
	<b>'000 BGN</b>	<b>'000 BGN</b>
Issuance premium reserves	7 651	7 651
Other reserves	1	1
Subsequent asset valuation reserve	7 381	5 878
<b>Total Reserves</b>	<b>15 033</b>	<b>13 530</b>

**15. Liabilities to financial institutions**

Including the following liabilities:

<b>Current</b>		<b>Non-Current</b>	
<b>2019</b>	<b>2018</b>	<b>2019</b>	<b>2018</b>
<b>'000 BGN</b>	<b>'000 BGN</b>	<b>'000 BGN</b>	<b>'000 BGN</b>

Bank loans	-	997	11 735	16 095
Bonds	-	4 838		
Financial Leasing	134	342	1 396	1 454
<b>Total</b>	<b>134</b>	<b>6 177</b>	<b>13 131</b>	<b>17 549</b>

### **Financial leasing as a lessee**

The Group has acquired under land leasing contracts land and buildings under construction. The net book value of the assets acquired under financial leasing contracts amounts to BGN 10 305 thousand. The assets are included in the Land and Assets under construction group from Property, plant and equipment.

The Group has concluded two financial leasing contracts with Bulgaria Leasing EAD as of December 17, 2013 and with RES Project AD as of December 30, 2011. Financial leasing liabilities are secured by the respective assets acquired under the terms of financial leasing.

On December 17, 2013, the parent company concluded a contract for financial leasing of real estate with Bulgaria Leasing EAD with a leasing object: investment project Grand Borovets, owned by Intercapital Property Development REIT. Initially, the lease price was to be paid within 2 years of the transfer of ownership of the leasing objects, of which a 6-month grace period, through 24 lease payments due on the 20th of the month for which the contribution was payable, at a fixed annual interest of 9 %. By mutual agreement between the parties in 2014, the term for repayment of lease payments was extended to 20.12.2019, as a result of which the lease price was changed to EUR 3 183 968.45 excluding VAT. At the end of 2016, a new agreement was signed between the parties, under which the term for repayment of lease payments was extended to 20.12.2021, and the lease price was accordingly changed to EUR 3 411 746 without VAT. December 2013 Intercapital Property Development REIT transferred the title to the land with ID 65231.918.189, located in the town of Samokov, Samokov municipality, Sofia district, and the building, built in this property, which is a hotel apartment complex. service ashti object identifier 65231.918.189.2, the lessor "Bulgaria Leasing" JSC. As a result, and under the terms of a reverse lease, Intercapital Property Development REIT obtained ownership of the property subject to the Financial Leasing Agreement from the lessor.

As a result of the signed 3-tranche agreement on 13.11.2019. between Intercapital Property Development REIT, Bulgaria Leasing and Investabank AD, Bulgaria Leasing was replaced as a lessor by Investbank AD. To date, all other clauses of the contract are unchanged.

Leases include fixed lease payments and an option to purchase at the end of the last year of the lease term. Leases are irrevocable but contain no other restrictions.

### **Bank loans**

The following table shows the obligations for principals of loans received from financial institutions with the distribution of the debt as of December 31, 2019, depending on the maturity date:

As of December 31, 2019, Intercapital Property Development REIT has the following obligations as principal for financial corporations:

<b>Long Term Liability, EUR</b>	<b>Interest</b>	<b>Maturity</b>
6 000 000	5%	01.07.2022

The loan is secured by a mortgage on 77 residential and 25 retail sites, with a total built-up area of 15.6 thousand square meters. The properties are located in Marina Cape Property and are owned by the parent company.

## **Bonds**

### **Bond issue**

In 2007, the Parent Company issued a bond issue, secured only by a financial risk insurance policy issued by Euro Ins AD. The MOU provides that the funds should be used as a priority for the purchase of land properties in Sofia. The issue was issued on August 14, 2007. The term is 3 years. The amount is EUR 5 million (BGN 9 779 thousand). The principal is repaid at the end of the period and the interest is paid every 6 months. The coupon for the issue is 9%. Together with the price on the insurance policy, the total cost of the company amounts to about 10.2% annually. The issue is due on August 14, 2010.

At the general meetings of the obligors in 2010, 2013 and 2015, the parameters of the issue were matured, such as maturity, interest, collaterals provided. In 2019 at a meeting of bondholders it was decided to terminate the cases against the insurer.

In December 2019, the Company entered into a redemption transaction for its own corporate bond with ISIN: BG 2100019079 worth EUR 2 150 000. The issue was deregistered by FSC and CD. As a result of the transaction, the company realized a positive financial result of BGN 632 thousand and the remaining liability is unsecured trade debt for EUR 2 150 000 with maturity on June 30, 2020.

## **17. Trade payables**

The next table represents the most significant obligations of ICPD ADSIC as of 31.12.2019.

<b><u>Current:</u></b>	<b>31.12.2019</b>	<b>31.12.2018</b>
	<b>'000 BGN</b>	<b>'000 BGN</b>
ViK Burgas	23	162
Ventenergy OOD	66	157
Marina Cape Properties OOD	144	153
Intercapital Markets AD	7	363
Amounts received from customers in advance	1 951	4 082
others	575	726
	<b>2 766</b>	<b>5 643</b>

The net book value of trading liabilities is considered to be a reasonable estimate of their fair value.

## **19. Tax payables**

	<b>31.12.2019</b>	<b>31.12.2018</b>
	<b>'000 BGN</b>	<b>'000 BGN</b>
VAT for payment	16	347
Amounts due under personal taxes law	53	444

others	23	163
<b>Total</b>	<b>92</b>	<b>954</b>

Tax liabilities as of December 31, 2019 represent current liabilities to the National Revenue Agency and for local taxes and fees.

## 21. Other Liabilities

	<b>31.12.2019</b>	<b>31.12.2018</b>
	<b>'000 BGN</b>	<b>'000 BGN</b>
<b>Non-current:</b>		
Other non-current	2 316	1 320
	<b>2 316</b>	<b>1 320</b>
<b>Current:</b>		
Other current liabilities (incl. ceded obligations)	27 653	11 708
	<b>27 653</b>	<b>11 708</b>

Other non-current liabilities of the Group are ceded liabilities and borrowings from trading companies.

Other current liabilities of the Group are ceded liabilities, borrowings from companies, incl. liabilities for the redemption bond issue of the parent company.

## 22. Sales Revenues

Sales revenues include:

	<b>31.12.2019</b>	<b>31.12.2018</b>
	<b>'000 BGN</b>	<b>'000 BGN</b>
Income from sale of investment property	156	1 645
Proceeds from the sale of products	244	350
Revenue from sales of goods	51	37
Revenue from the provision of services	1 354	1 370
Other revenue	34	154
	<b>1 839</b>	<b>3 556</b>

## 23. Other revenues

	<b>31.12.2019</b>	<b>31.12.2018</b>
	<b>'000 BGN</b>	<b>'000 BGN</b>
Written-Off Revenues	1 430	76
<b>Total</b>	<b>1 430</b>	<b>76</b>

In 2019, liabilities to clients / counterparties in the amount of BGN 1430 thousand were written off in connection with the expiry of the limitation period for the liabilities.

24. Expenses for materials (incl.)

	31.12.2019	31.12.2018
	'000 BGN	'000 BGN
Costs for materials	(240)	(171)
Costs for heat and electricity	(137)	(122)
others	(54)	(42)
<b>Total</b>	<b>(431)</b>	<b>(335)</b>

24. Expenses for external services

Expenses for external services include:

	31.12.2019	31.12.2018
	'000 BGN	'000 BGN
Telecom Services	(27)	(33)
Taxes, accounting, auditing and consultancy services	(268)	(127)
Other	(418)	(398)
<b>Total</b>	<b>(713)</b>	<b>(558)</b>

26. Expenses for salaries and social security contributions

The salary expenses include:

	31.12.2019	31.12.2018
	'000 BGN	'000 BGN
Expenses for salaries	(524)	(302)
Expenses for social security contributions	(89)	(59)
<b>Total</b>	<b>(613)</b>	<b>(361)</b>

The average number of staff in the group is 38. There are no accruals for vacation provisions.

27. Other expenses

Other expenses include:

	31.12.2019	31.12.2018
	'000 ЛВ.	'000 ЛВ.
Carrying amount of assets sold	(157)	(1 708)
Change in inventories and work in progress (production sold)	-	(240)
Recognition of a Loss on a Financial leasing	(115)	(446)
Receivables written off	(120)	(41)
Sales expenses	(3)	(33)
Local taxes and fees	(89)	(361)
Forfeit	(573)	(239)
Other expenses	(82)	(184)



(1 139)                      (3 252)

### 29. Financial Income/ Expenses (net)

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

	31.12.2019	31.12.2018
	'000 ЛВ.	'000 ЛВ.
<b>Financial expenses</b>		
Interest expenses	(1 586)	(1 600)
Expenditure on operations with financial assets	(1 276)	
Other financial expenses	(99)	(11)
<b>Total financial expenses</b>	<u>(2 961)</u>	<u>(1 611)</u>
<b>financial income</b>	<u>632</u>	
<b>Financial income / expenses, net</b>	<u>(2 329)</u>	<u>(1 611)</u>

### 31. Tax Expense

The financial result of the parent company is not subject to corporation tax, in accordance with Art. 175 of the Corporate Income Tax Act.

For 2019, the subsidiary Marina Cape Management EOOD has no corporate tax charge. For comparison, in 2018, the corporate tax amounted to BGN 10 thousand.

### 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.

	31.12.2019	31.12.2018
	'000 BGN	'000 BGN
Profit / (loss), attributable to shareholders (in '000 BGN)	(1 986)	(4 300)
Weighted Average Number of Shares (in '000 BGN)	6 011	6 011
Basic Earnings per Share (in '000 BGN.)	<u>(0.33)</u>	<u>(0.72)</u>

### 4 Dividends

In 2018 and 2019, the group did not pay dividends

### 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**

	<u>31.12.2019</u>	<u>31.12.2018</u>
	'000 BGN.	'000 BGN.
<b>Sale of goods and services</b>		
- sale of services to "Marina Cape Mangment" EOOD	647	357
<b>Purchase of Goods and Services</b>		
- purchase of services from "Marina Cape Management" EOOD	-	275
<b>Receivables from subsidiaries</b>	<u>31.12.2019</u>	<u>31.12.2018</u>
	'000 BGN.	'000BGN.
<b>Current:</b>		
"Marina Cape Management" EOOD	1 762	2 621
<b>Total current receivables from related Parties</b>	<u>2 621</u>	<u>2 701</u>
<b>Liabilites towards subsidiaries</b>	<u>31.12.2019</u>	<u>31.12.2018</u>
	'000 BGN.	'000BGN.
<b>Current:</b>		
"Marina Cape Management" EOOD	13	2 987
<b>Total current Liabilities towards related parties</b>	<u>13</u>	<u>2 987</u>

**b. Transactions with key managemenet 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>31.12.2019</u>	<u>31.12.2018</u>
	'000 BGN.	'000 BGN.
Remunerations	-	17
Remunerations the management staff of the Group	39	74
<b>Total:</b>	<b>39</b>	<b>91</b>

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

	<u>31.12.2019</u>	<u>31.12.2018</u>
	'000 BGN.	'000 BGN.
Remunerations towards individuals	161	138
Remunerations towards Aheloy 2012	-	139
<b>Total:</b>	<b>161</b>	<b>277</b>

**The management of the Group The Group's claims on the members of the Board of Directors are as follows:**

	<b>31.12.2019</b>	<b>31.12.2018</b>
	<b>'000 BGN</b>	<b>'000 BGN</b>
A/R From Aheloy 2012	35	35

## 5 Contingent liabilities

Enforcement case No. 50/2017 on the inventory of private enforcement agent Delyan Nikolov, with Reg. No. 804 of the Private Enforcement Agents, with area of activity District Court - Burgas

The enforcement case was initiated on the basis of a writ of execution issued in favor of Alexander Sergeyevich Solovyev for the amount of BGN 39 500,59. The enforcement case was initiated on the basis of the writ of execution issued in Soloviev's sex in the case described in item 7.6 above. In the enforcement case, an inventory of three real estate owned by the company was conducted:

- Detached object with ID 00833.5.409.9.4, representing Apartment 14\_2, located in Marina Cape Holiday Complex - Aheloy;
- Detached object with ID 00833.5.409.25.22, representing Apartment 37\_22, located in Marina Cape Holiday Complex - Aheloy;
- Detached object with ID 00833.5.409.26.19, representing Apartment 38\_16, located in Marina Cape Holiday Complex - Aheloy;

Execution case No. 850/2016 on the inventory of private enforcement agent Ivanka Mindova, with Reg. No. 704 of the Chamber of Private Enforcement Agents, with an area of activity District Court - Burgas

The enforcement case was initiated on the basis of a writ of execution issued in favor of Nedyalko Ivanov Kalachev for the amount of EUR 64 006.

The case was filed with the claimant for termination of the enforcement proceedings.

### 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":

(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 2018 there was a revival in the real estate sector, and the 2019 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

After January 1, 2020, and especially in March 2020, we are in an emergency because of the worldwide WHO pandemic Crown pandemic. Europe is the current center of the pandemic. A state of emergency has been declared in the Republic of Bulgaria by a decision of the National Assembly by April 13, 2020. Measures have been introduced to restrict travel, the operation of public buildings and public establishments. Cross-border restrictions have been introduced in and from almost all European countries. Most transportation companies have announced force majeure. The financial system is in the process of reorganizing and limiting customer service. Financial markets fell sharply by more than 25%, oil prices fell by more than 30%, and commodity prices.

The employees of the company face all the people in Bulgaria on an equal footing with the challenges of preserving their health, their jobs and their property.

The main assets of the company are located in the town of Aheloy, Marina Cape. The assets are held and managed by the subsidiary Marina Cape Management EOOD, which has imposed measures to protect staff, property and ensure the functioning of the complex in compliance with the provisions for all state and municipal authorities. The company has two managers who can guarantee functioning and representativeness. Food and entertainment facilities are closed and staff are released on vacation. Strict restrictions on entry into the complex have been introduced. Security increased. Employees over 60 have been released. A social policy is being prepared to protect employees. Even if the tourist season - summer 2020 is nullified, the revenues from the maintenance fee, even if heavily discounted, will be sufficient to safeguard the assets and fulfill the contracts with the owners.

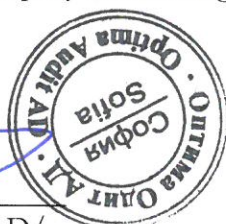
Currently, all options are normal living in the complex of property owners, as well as the opportunity to accommodate tourists on the basis of their own kitchen.

The other big asset of the company is a building of rough construction in Borovets resort, which is only guarded.

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Drafted:

/Optima Audit AD/



Executive Director:

/Velichko Klingov/

