



## Independent Auditor's Report

To: The management of  
INTERCAPITAL PROPERTY DEVELOPMENT ADSIC

### Report on the audit of Financial Statements

Qualified opinion

We have audited the financial statements of "Intercapital Property Development" ADSIC (the "Company") as of 31<sup>st</sup> December 2016, including statement of financial condition, consolidated income statement, statement of the changes in equity, and cash flow statement, ending on the same date, as well as the summarized disclosure of applied accounting policies, and other explanatory information, including the summarized disclosure of the significant accounting policies.

In our opinion, except for the effects regarding the issues, described in the Section of our report "Basis for qualified opinion", the financial report provides correct and truthful presentation of the financial condition of Intercapital property Development ADSIC as of 31<sup>st</sup> December 2016, as well as for the financial results from operations and cash flows for the year, ending on this date in accordance with the International Financial Reporting Standards (IFRS), endorsed by the EU and the Bulgarian legislation.

#### *Basis for qualified opinion*

1. The receivables described in the explanatory notes: 12 "Commercial receivables", 13 "Advances", 33 "Related party transactions" of the Financial statement as of 31.12.2016 are of total value 7 684 thousand BGN. As is stated in the notes, the Company has over 90% overdue impaired receivables of over one year. We could not receive enough and relevant audit proof regarding their collectability, as well as to evaluate reliably the present value of the expected incoming cash flows from them and the value of the potential impairment of the aforementioned receivables. The acknowledgment of impairment would reduce the receivables by the uncollectable sums and respectively the net annual profit.
2. The loans of the company form 50% of the total obligations, whereas over 80% of the value of the financial obligations for loans are towards Piraeus Bank. As of issuing this report we have not received direct confirmation regarding the expenses and obligations from the bank and as such, we were not able to be convinced, to a necessary degree of certainty, regarding the correctness of the representation of the obligation, nor were we able to determine whether any corrections in the financial statement are necessary.

We have carried out our audit in compliance with the International audit standards (IAS). Our responsibilities, according to these standards are set out additionally in the "Responsibility of the auditor for the financial statement audit" section of this report. We are independent of the Company in accordance with the Ethical code of the professional accountants of the Council for

international ethical standards for accountants (CIESA Code), together with the ethical requirements of the Law for independent financial audit, applicable in Bulgaria. We have conducted ours and other ethical responsibilities in accordance with these requirements. We believe that the audit proof, received by us are enough and relevant to provide a basis for our qualified opinion.

### *Special attention*

We pay attention to explanatory note 3 “Acting Company” of the financial report, in which it is stated that the Company records a loss for the period in the amount of 127 thousand BGN and a negative cash flow from operations in the amount of 22 thousand BGN. The amount for current liabilities exceeds the sum of current assets by 40 371 thousand BGN as of 31.12.2016, compared to 39 853 thousand BGN as of 31.12.2015. As is stated in explanatory note 3 “Acting company”, these events, together with the other matters, set out in explanatory note 36 “Contingent assets and liabilities” lead that there is considerable uncertainty, which can rise considerable doubt regarding the ability of the company to continue to function as an acting company without the support of its owners and other sources of financing. Our opinion has not been modified regarding this matter.

### *Key audit questions*

Key audit questions are these questions, which according to our professional judgement have been of most significance during the audit of the financial report for the current period. These questions have been considered as part of our audit of the financial report as a whole and forming our opinion on it, whereas we do not provide a separate opinion for these questions. In addition to the question, described in the “Basis for qualified opinion” section, we have determined the questions, set out below, as key audit questions, which are to be communicated in our report.

Key audit question	How this key audit question was addressed during the audit, conducted by us
<p>We have focused on the book value of the investment properties which is 35 637 thousand BGN as of 31.12.2016, and their reappraised fair value, represented in the net loss for the year is 176 thousand BGN. When calculating the fair reappraised value of the investment properties a considerable judgement by the management is required. Due to the significance of the balance of the investment properties for the financial report as a whole (61% of all assets of the company) as well as due to the necessity and application of the considerable judgement, the appraisal of the fair value of the investment properties is considered a key matter for the audit.</p> <p>The company uses an independent appraiser for determining the fair value of the properties from all categories. The incoming data, which have the most significant effect on the assessment of fair value of the investment properties, include forecasts for future cash</p>	<p>Our audit procedures included the following:</p> <ul style="list-style-type: none"> <li>• Conducting appraisal of the competence, capacity and objectiveness of the independent appraiser, hired by the Company. In addition, discussing the scope of its work with the management and reviewing the conditions, under which he has been appointed.</li> <li>• Using our own internal experts for appraising the key judgements when determining the fair value of the investment properties and especially the appraisal models applied and the considerable assumptions, including the discount rate, terminal value in the end of forecasted period and period of development.</li> <li>• Comparing this data with market data and the historical data, specific to the</li> </ul>

<p>flows, discount rate, terminal value in the end of forecasted period and period of development.</p>	<p>Company, in order to appraise the relevance of these judgements.</p> <ul style="list-style-type: none"> <li>• Testing chosen incoming data, on which the appraisal of the investment properties is based, in order to evaluate their accuracy, reliability and completeness.</li> <li>• A special attention has been paid to the sensitivity analysis based on the considerable assumptions, in order to evaluate the degree of influence on the fair value and to evaluate the appropriateness of the disclosures made by the Company in disclosure note 7 of the financial report - “Investment properties”.</li> </ul>
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### **Other information, different than the financial report and the statement of the auditor on the financial report**

The management is liable for the other information. The other information includes a report on the scope of business of the company, including a statement on the corporative management done by the management of the company according to the Accountancy Act. The other information does not include the financial report and our auditor statement on it.

Our assessment of the financial report does not concern the other information and we are not evaluating its security and correctness in any way unless it is stated in our report and if stated, only in the scope mentioned in the report. The scope of our audit regarding the other information is limited to reading the other information and finding whether there are essential discrepancies between the other information and/or the financial report and/or our knowledge gained throughout the audit and/or the other information includes in some other way fundamentally wrong data. If we come to the conclusion that the other information contains fundamental errors, we are obliged to report this. We have nothing to report regarding the other information.

### **Liability of the management and the persons, commissioned with the general governance of the financial report**

The management is liable for the preparation and accurate presentation of this financial report according to the International financial reporting standards (IFRS), adopted by the European Union and Bulgarian legislature. Furthermore the management is responsible for the implementation of an internal control system, in order to avoid essential errors in the financial reporting (regardless whether due to an error or due to fraud). The scope and type of this control system are be defined by the management.

In the process of preparation of the financial report the management is responsible for the evaluation of the capability of the corporation to proceed its business as a viable company. If it is applicable, the management should publish a questionnaire, showing the assumptions for the company business and based on the accountant data. This is to happen unless the management does not intend the liquidation of the company or the end of business, or if the management does not have any other alternatives than to do so.

The persons, commissioned with the general governance are responsible for the monitoring of the financial reporting process of the company.

## **Liability of the auditor for the financial report audit**

Our goal is to get a reasonable degree of certainty regarding the correctness of the financial report and regarding essential wrong information in the financial report (regardless whether it is due to errors or fraud). Our objective is to issue an audit report which includes our opinion as an auditor. The reasonable degree of certainty is high certainty but not a guarantee that the audit (even if in accordance with IFRS and the Law for independent financial audit) always will detect wrong information in the financial reports if such is included. Wrong information in the financial report can be due to an error or fraud and they are considered essential if they can separately or in their sum make impact on the economical decisions of the consumers who base their decisions on this financial report.

As a part of the audit and in accordance with IFRS, we are using our professional judgement and maintaining professional scepticism during the whole audit. We also:

- identify and evaluate the risks of essential wrong information in the financial report, regardless whether they are due to error or fraud. We prepare and fulfil auditing procedures in reaction to these risks and collect auditing proof which should build the ground for our estimations. The risk of not detecting wrongful information due to fraud is higher than the risks of errors as fraud often is possible after secret agreements, forgery, intended false information, false declaration in order to deceive the auditor and to skip and deceive internal control
- get an understanding of the internal control systems in order to develop auditing procedures which are suitable for the concrete situation, but we are not aiming at making a stand on the effectiveness of the internal control measurements
- evaluate the pertinence of the accountancy tool in use and the reasonability of the accountancy estimations and the announcements of the management done on connection to them
- come to conclusions regarding the pertinence of the used accountancy data base and based on the collected auditing proofs, regarding whether there is instability which can raise doubts regarding the viable existence of the company. If we reach to the conclusion that there is essential instability we are obliged to mention in our audit report the publications regarding this instability and in case this publications are inadequate - to modify our opinion. Our findings are based on auditing proofs, collected up to the date of the auditing report. Future events and conditions can be the reason that the company ends its business activity.
- evaluate the whole appearance, structure and content of the financial report, including the publications and whether the financial report represents the contracts and events of the company business in a reliable way.

We communicate with the persons, commissioned with the general governance of the audit and with other questions, the planned scope of the audit and the essential results of the audit including essential disadvantages of the internal control, which we identify throughout the audit.

We declare towards the persons commissioned with the general governance of the audit that we have fulfilled the applicable ethical requirements regarding our independence and we communicate to them all the questions what might have impact on our independence and if applicable - also the resulting measurements.

Among the questions, communicated to the persons commissioned with the general governance of the audit, we define the questions which are of biggest importance for the current period of the financial report and which are therefore the questions for the audit. We describe the questions in our audit except in cases where a law or other norms prohibit the publications of this information or when in seldom cases we decide that a concrete question should not be communicated in our report as it can be expected that the disadvantages of the publication would outweigh the advantages for the public interest.

## **Report on other legal and regulatory requirements**

In addition to our responsibility and reporting in compliance with IAS, described above in Section “Other information different than the financial report and the audit report on it” regarding the report on the company’s activity, incl. the declaration for corporate management, we carried out the procedures added to the ones required per IAS in compliance with the References of the professional organization of the certified accountants and registered auditors in Bulgaria – Institute of the certified accountants, issued on 29.11.2016. These procedures concern verifications for presence as well as verifications of the form and the contents of that and other information in order to help us in forming a statement whether the other information includes disclosure and reporting, intended in Chapter seven in the Accounting Law and the Law on Public Offering of Securities, (Art. 100n, para. 10 from the Law on Public Offering of Securities in connection with Art. 100n, para.8, p. 3&4 from the Law on Public Offering of Securities), applicable in Bulgaria.

### ***Opinion regarding - Art. 37, para. 6 from the Accounting law***

On the basis of the performed procedures, our opinion is the following:

- (a) the information included in the report for the activity during the financial year, for which the financial report is prepared, is in accordance with the financial statement
- (b) the report is prepared in accordance with the applicable laws
- (c) as a result of the of the acquired knowledge and attained understanding for the activity of the Company and the environment in which it operates, we have not identified an instance of substantial misrepresentation in the report
- (d) the relevant information regarding corporate governance for the financial year is present in accordance with the respective regulations, incl. information under Art. 100(n) para.8 from the law on Public Offering of Securities;

### ***Opinion regarding Art. 100(n), para.10 from the law on Public Offering of Securities***

On the basis of the conducted procedures and acquired knowledge and understanding for the activity of the Company and the environment in which it operates, with exception to the questions “Basis for statement of qualified opinion” and “Paying Attention” in our opinion, no instances of significant incorrect reporting are present in the description of the main characteristics of the systems for internal control and risk management of the Company in regards to the process of financial reporting and the information presented regarding art.10 para. 1, under letters „B“, „Г“, „e“, „з“ и „и“ from European Directive 2004/25/EU of the European Parliament and the council from the 21<sup>st</sup> of April 2004 regarding propositions for mergers, which are included in the declaration for corporate management of the Company, which is a part of the annual statement.

### ***Additional reporting regarding the audit of the annual report in accordance with Art.100(н), para.4, p.3 from the law on Public Offering of Securities***

- Statement regarding Art. 100 (n), para. 4, p. 3, letter ”б“ from the law on Public Offering of Securities.

The information regarding transactions with related parties is stated in note 33 from the annual report. On the basis of the conducted audit procedures for the related party transactions as part our audit on the financial report as a whole, there have been no facts, circumstances or other information on the grounds of which to make the conclusion that the related parties transactions have not been disclosed in the attached financial statement for the year ending 31<sup>st</sup> December

2016, in light of all essential aspects, and in accordance with the regulations of International Accounting Standards 24 “Disclosure of related parties”. The results from our audit procedures regarding related parties transactions are examined by us in the context of forming our opinion about the financial report as a whole and not with the intention of stating a separate opinion about the related party transactions.

- Statement regarding Art.100 (n), para.4, p.3 б „B“ form the law on Public Offering of Securities.

Our responsibility for audit of the financial statement as a whole, described in our report “Responsibility of the auditor for the audit of the financial statement”, evaluates whether the financial report discloses the significant transactions and events in a way which meets fair representation. On the basis of the conducted audit procedures regarding significant transactions, fundamental for the financial statement for the year ending 31<sup>st</sup> December 2016, with exception to the questions “Basis for statement of qualified opinion” and “Paying Attention”, there have been no facts, circumstances or other information on the grounds of which to make the conclusion that there have been cases of significant untruthful representation and disclosure in accordance with the applicable International Financial Reporting Standards, accepted in the European Union. The results of our audit procedures concerning significant transactions and events in regards to the financial statement of the Company are examined by us in the context of forming our opinion about the financial report as a whole and not with the intention of stating a separate opinion about these significant transactions.

**Auditor: “Audit Advisers” OOD #152**

**Registered auditor, responsible for the assignment:**

**Ophelia Slavkova, Diploma for Expert Accountant with diploma #0613**

**Managing Partner**

**Ophelia Slavkova**

**Date: 31.03.2017**

**Address of the auditor:**

**Blvd. Bulgaria, Bokar Area, Bulding 21, floor 1, Sofia, Buglaria**