

Interim Financial Report

„INTERCAPITAL PROPERTY
DEVELOPMENT” ADSIC

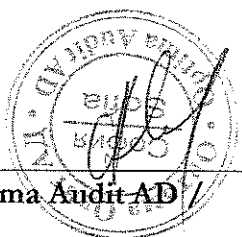
31st December 2012

Report for the financial condition

	Notes	31.12.2012 '000 BGN	31.12.2011 '000 BGN
Assets			
Non-current assets			
Property, plant and equipment	6	4 927	4 981
Investment property	7	42 695	44 861
Intangible assets	8		1
Investment in subsidiaries	9	5	5
Non-current assets		47 627	49 848
Current assets			
Work-in-progress	10	8 648	8 695
Trade accounts receivables	11	309	2 278
Advance payments	12	247	250
Receivables from related parties	30	1 251	1 449
Other receivables		371	147
Cash and cash equivalents	13	100	206
Current assets		10 926	13 025
Total assets		58 553	62 873

Accountant:

/ Optima Audit AD /



Executive Director:

/ Velichko Klingov /



Date: 28.01.2013

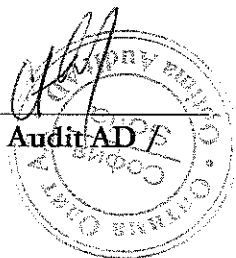
Report for the financial condition

	Notes	31.12.2012 '000 BGN	31.12.2011 '000 BGN
Shareholders' equity			
Share capital	14	6 011	6 011
Issue premiums		7 651	7 651
Revaluation reserve	14.2	711	711
General reserves		1	1
Undistributed profit		9 437	9 437
Undistributed loss		(13 794)	(3 352)
Current profit/loss		(2696)	(10 442)
Total shareholders' equity		7 321	10 017
Liabilities			
Non-current liabilities			
Liabilities to financial institutions	15	2 582	11 995
Bonds	15		6 845
Total non-current liabilities		2 582	18 840
Current liabilities			
Liabilities to financial institutions	15	25 826	15 700
Bonds	15	6 845	978
Liabilities to suppliers and customers	16	5 453	6 147
Customers' advance receivables	17	8 899	8 626
Short-term liabilities to related parties	30	988	572
Tax payables	18	569	361
Social security payables and salaries payables	19	22	23
Other liabilities	20	48	1 609
Total current liabilities		48 650	34 016
Total liabilities		51 232	52 856
Total shareholders' equity and liabilities		58 553	62 873

Accountant: _____

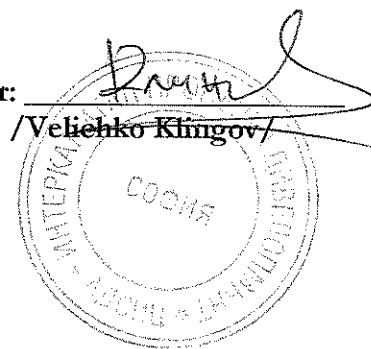
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Executive Director: _____

/ Velichko Klingov /



Comprehensive Income Statement

	Notes	31.12.2012 '000 BGN	31.12.2011 '000 BGN
Net revenues from sales	21	3 909	4 666
Expenses for materials	22	(53)	(35)
Expenses for external services	23	(1 240)	(1 816)
Expenses for salaries	24	(158)	(158)
Expenses for depreciation		(55)	(55)
Other expenses	25	(13)	(2 986)
Book value of assets sold	26	(2 175)	(2 146)
Change in the inventories of finished goods and work in progress	10	(47)	(182)
Operating profit/(loss)		(3 741)	(10 870)
Financial expenses	27	(2 864)	(4 243)
Financial income	27		5
Profit before tax		(2 696)	(10 442)
Net tax expenses	29		
Net profit/ (loss)		(2 696)	(10 442)
Earnings per share	30	(0.45)	(1.74)

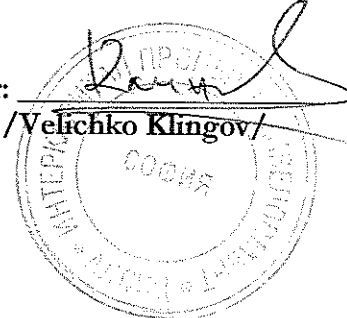
Accountant: _____

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Date: 28.01.2013

Statement of Changes in Equity

All amounts are in '000 BGN	Share Capital	Premium Reserves	Other Reserves	Undistributed Earnings	Financial result for the current year	Total Equity
Balance as of 1 st January 2011	6 011	7 651	647	9 437	(3352)	20 394
Comprehensive income						
Profit/ Loss					(10 442)	(10 442)
Other comprehensive income						
Revaluation of long-term assets			65			65
Total other comprehensive income	6 011	7 651	712		(13 794)	10 017
Transactions with owners						
Subsequent increase in capital and revaluation on reserve						
Total transactions with owners						
Balance as of 31 st December 2011	6 011	7 651	712	9 437	(13 794)	10 017

All amounts are in '000 BGN	Share Capital	Premium Reserves	Other Reserves	Undistributed Earnings	Financial result for the current year	Total Equity
Balance as of 1 st January 2012	6 011	7 651	712	9 437	(13 794)	10 017
Comprehensive income						
Profit/ Loss					(2 696)	(2 696)
Other comprehensive income						
Revaluation of long-term assets						
Total other comprehensive income	6 011	7 651	712	9 437	(16 490)	7 321
Transactions with owners						
Subsequent increase in capital and revaluation on reserve						
Total transactions with owners						
Balance as of 31 st December 2012	6 011	7 651	712	9 437	(16 490)	7 321

Accountant:

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Date: 28.01.2013

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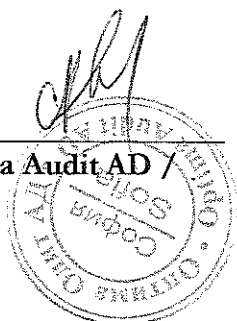
Cash Flow Statement

Notes	31.12.2012 '000 BGN	31.12.2011 '000 BGN
Cash flow from operating activities		
Customers receivables	4 636	5 250
Suppliers payables	(899)	(1 942)
Salaries and social securities payables	(143)	(176)
Paid/refunded taxes except corporate tax	(203)	(292)
Paid bank fees and interest in operating funds		
Foreign currency exchange rate gains/losses net	(2)	(5)
Other operating activities payments	(373)	(240)
Net cash flow from operating activities	3 016	2 595
Cash flow from investment activity		
Sale of investments in subsidiaries		
Net cash flow from investment activity	0	0
Cash flow from financing activity		
Proceeds on loans		
Payments of bank loans	(1 535)	(1 601)
Dividends paid		
Proceeds on interest		
Payments of interest, fees and commissions	(1 587)	(1 150)
Other proceeds/payments on financing activity		
Net cash flow from financing activity	(3 122)	(2 751)
Net change in cash and cash equivalents	(106)	(156)
Cash and cash equivalents at the beginning of the period		
Cash and cash equivalents at the end of the period	206	362
Net change in cash and cash equivalents	100	206

Accountant:

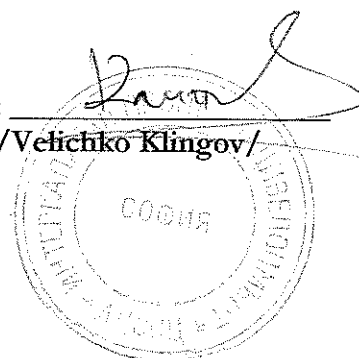
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Executive Director:

/Velichko Klingov/



Notes

1. General information

“Intercapital Property Development” ADSIC is a company registered in accordance with the Special Purpose Vehicles Act for securitization of real estate properties. 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 joint-stock company and is entered in the Commercial Register in the Sofia City Court, company file № 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 7A Aksakov Str., Sofia.

The Company’s shares are listed for trading on the Bulgarian Stock Exchange – Sofia AD as well as 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
- Temenuga Ivanova
- Tsvetelina Hristova.

The Investor Relations Director is Milen Bojilov.

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, AD Tokushev and Partners. Main independent appraiser of the real estate 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).

2.1 Going concern

The financial report is constructed following the going concern. As of the date of this report, the management has considered the ability of the Company to continue its operations as a functioning entity based on the available information for the foreseeable future. Despite the fact that the Company has accumulated losses in the last few periods and that the amount of current liabilities exceeds the amount of current assets with BGN 37 724 thousand for 2012 and BGN 20 991 thousand for 2011, after a thorough review of the Company’s activity, the management expects that the Company has sufficient financial resources for continuing its operations in the near future and thus, continues to apply the going concern for the preparation of this financial report.

2.2. 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 have been reclassified.

3. Changes in accounting policy

3.1. General provisions

The following *new standards, amendments and interpretations* of the IFRS which are mandatory for application for the annual period starting on 1st January 2011 but are not connected with the operations of the Company and have no impact on the Company's financial statements are:

- IFRS 1 "First-time Adoption of IFRS" (adjusted) - Additional exemptions from comparative disclosures according to IFRS 7 for entities, applying for the first time IFRS – in force since 1st July 2010, adopted by the EU 30/6/2010;
- IAS 24 "Disclosure of related parties" (adjusted) in force since 1st January 2011, adopted by the EU 19/07/2010;
- IAS 32 "Financial instruments: reporting" (adjusted) in force since 1st January 2010, adopted by EU 24/12/2009;
- IFRIC 14 "Prepayment of minimum funding" in force since 1st January 2011, adopted by EU 19/07/2010;
- IFRIC 19 "Repayment of financial liabilities with equity" in force since 1st July 2010, adopted by EU 23/07/2010;
- Annual amendments of 2010 in force since 1st January 2011, unless another date is reported, adopted by EU 18/02/2011;

4. Standards, amendments and interpretations that have not yet been enforced and have not been applied as of an earlier date by the Company

As of the date of verifying this financial report, some new standards, amendments and interpretations of already existing standards have been published but have not been enforced yet and have not been applied earlier by the Company.

The management expects that all new innovations would be included in the accounting policy of the Company for the first reporting period starting after the date of their enforcement. The information about new standards, amendments and interpretations, which are expected to affect the financial report of the Company, is presented below:

IFRS 1 "First-time Adoption of IFRS" (adjusted) – amendments concerning the super inflation and fixed dates, in force since 1st January 2011, still not adopted by EU.

The amendments include two changes. The date 1st January 2004 is replaced with the date of adoption of IFRS for deals concerning writing-off assets and liabilities and for estimating the fair value of the financial assets and liabilities with the respective valuation techniques. The second change allows companies, after a period of super inflation, to value their assets and liabilities, which have been held before the normalization of the economy, according to the fair value and to use it as an accepted value for preparing the first financial report according to IFRS.

IFRS 7 "Financial instruments: reporting" – removal – in force since 1st July 2011, still not adopted by EU.

The amendment of IFRS 7 leads to greater transparency for reporting deals concerning the transfer of financial instruments and facilitates the understanding for users of financial statements concerning the presentation of risks when financial assets are transferred and the way those assets affect the financial condition of the company, especially in case of securitization of financial assets.

IFRS 9 “Financial Instruments” in force since 1st January 2003, still not adopted by EU.

IFRS 9 represents the first part of the project of IASB for changing IAS 39 “Financial Instruments: recognition and measurement” till the end of 2010. The standard changes the four categories of financial assets when measured in IAS 39 with a classification on the base of a single principle. IFRS 9 requires all financial assets to be measured either according to their amortized cost or according to fair value. The amortized cost represents information that is useful for taking decisions concerning the financial assets which are held mainly for the purpose of acquiring cash flows consisting of interest payment and principal. For all other financial assets, including those held for trading, the fair value represents the most accurate base for measurement. IFRS 9 removes the necessity of several measurement methods only for the assets, reported according to amortized cost. Additional sections concerning the impairment and accounting reporting of hedges are still under development. The management of the Company shall consider the effect these amendments would have on the financial report. However, the management does not expect these amendments to be enforced before the publication of all sections of the standard and before the overall effect of these amendments could be valued.

IFRS 10 “Consolidated financial statements” in force since 1st January 2013, still not adopted by the EU.

IFRS 10 “Consolidated financial statements” introduces new definition of the control based on specific principles, which shall be applied to all investments when determining the consolidation base.

IFRS 11 “Joint Commitments” in force since 1st January 2013, still not adopted by the EU.

IFRS 11 “Joint Commitments” replaces IAS 31 “Interests in joint ventures” and replaces the three categories “jointly controlled ventures”, “jointly controlled operations”, and “jointly controlled assets” with two categories – “joint operations” and “joint production”. The choice whether to apply the method of proportional consolidation when reporting joint ventures is not available any more. The equity method is compulsory for the application of all joint ventures.

IFRS 12 “Disclosure of interests in other entities” in force since 1st January 2013, still not adopted the by EU.

IFRS 12 “Disclosure of interests in other entities” is a new standard about the requirements for disclosure of all forms of equity in other entities, including joint ventures, associated entities, SPVs and other non-consolidated companies.

IFRS 13 “Evaluation of fair value” in force since 1st January 2013, still not adopted by the EU.

IFRS 13 “Evaluation of fair value” defines fair value as the price that could be received from the sale of a given asset or paid for the transfer of liabilities in an ordinary deal between market participants at the date of the valuation. The standard clarifies that the fair value is based on a contract made on the primary market for the asset or liabilities or if there is no such market – on the market with most favorable conditions. The primary market is the market with higher volume and turnover of the given asset or liability.

IAS 1 “Presentation of financial statements” – other comprehensive income – in force since 1st July 2012, still not adopted by the EU.

The amendments require the presentation of separate elements of other comprehensive income in two groups, depending on whether they would be reclassified in the profit or loss or the next periods. Elements which would not be reclassified, e.g. revaluated real estate, machinery or equipment, are

presented separately from elements which would be reclassified, e.g. deferred profits or losses from hedging of cash flows. Companies which have chosen to present the elements of other comprehensive income before taxes shall report the respective amount of taxes for each group separately. The name of the report for comprehensive income is changed to: "Report for profit or loss and other comprehensive income" but companies could use other titles too. The changes shall be adopted retrospectively.

IAS 12 "Income taxes" – deferred taxes – in force since 1st January 2012, still not adopted by EU.

The standard requires companies to value deferred tax assets depending on the way their book value is expected to be recovered – through use or sale. Since for investment properties, reported according to their fair value of IAS 40 "Investment properties", it is hard and subjective to determine which part of the recovery would be through following use or sale, an exception of the introduced principle is made - rebuttable presumption that the book value of the reported investment properties would be recovered only through sale. As a result of the amendment of the standard, IFRIC 21 "Income taxes – Recovery of revalued non-depreciable assets" and its interpretation are canceled.

IAS 19 "Employee benefits" in force since 1st January 2013, still not adopted by the EU.

The changes in IAS 19 remove the corridor method and require the reporting of financial expenses and revenues on a net basis. Actuarial gains or losses are renamed to revaluations and shall be reported immediately in the other comprehensive income. They are not reclassified in the profit or loss in the following period. The changes shall be applied retrospectively according to IAS 8 "Accounting policies, changes in accounting estimates and errors".

IAS 27 "Individual financial reports" (revised) in force since 1st January 2013, still not adopted by EU.

IAS 27 "Individual financial reports" (revised) concerns only individual financial reports, the requirements for which have not been significantly changed.

IAS 28 "Investments in associated and joint ventures" (revised) in force since 1st January 2013, still not adopted by the EU.

IAS 28 "Investments in associated and joint ventures" (revised) continues to prescribe the equity method. Some changes in the standard have been made due to the publishing of IFRS 11 "Joint commitments".

IFRIC 20 "Costs of removal and surface cleaning in the production phase of the mines" in force since 1st January 2013, still not adopted by EU.

IFRIC 20 determines the accounting policy of expenses for removal and cleaning of the surface in the production phase of given mine. The interpretation requires companies of the mine industry, which apply IFRS, to write-off the capitalized expenses for cleaning the surface in the undistributed profit, in case the assets cannot be attributed to identifiable component of the ore field.

5. Accounting Policy

5.1 General Position

The most important accounting policies applied to the preparation of 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.

It must be pointed out that the presented financial statements are based on certain accounting estimates and assumptions. Although they are based on the information provided to the management by the date of preparation of the financial statements, the actual results may vary due to the estimates and assumptions made.

No substantial effects in the current, previous and future periods resulting from the initial implementation of above mentioned standards and interpretations regarding presentation, recognition and estimation of the amounts have occurred.

5.2 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 functional and presentation currency of the financial statements is Bulgarian lev (BGN). This is the functional currency and the currency that represents 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 $1\text{EUR} = 1.95583\text{BGN}$.

5.3 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 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 usage, in case that no economic benefits are expected from their sale. The profits and losses from taking out of usage 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.

5.4 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, construction of an asset responding 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. In the Comprehensive Income Statement are reported additionally paid bank fees related to renegotiating loan relationships. Until 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.

5.5 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 years and 6 months.

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

The trade brands and licenses are reported at 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 Balance Sheet. 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.

5.6 Property, machines, facilities and equipment (non-current tangible assets)

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

The subsequent valuation 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 for the respective reporting period.

The subsequent expenses related to a certain asset of property, machines, facilities and equipment are added to the book value of the asset when it is probable that the asset shall generate more than the initially expected future economic benefits. Any 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 land and buildings, 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 there are such ones) 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, machines, facilities 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, machines, facilities 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:

• Buildings	25 years
• Machinery	3,3 years
• Vehicles	4 years
• Office fittings	6,67 years
• Computers	2 years
• Others	6,67 years

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

5.7 Tests for impairment of the intangible assets, property, machines, facilities 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 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.

5.8 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 but 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 to be obtained future economic benefits from the investment property;
- the value of the investment property could be estimated reliably.

The investment property is valued initially at cost that includes the purchase price and any others 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 to **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 Balance Sheet. The investment properties are revaluated on an annual basis and they are included in the Income Statement with their market values. The revaluations are made by independent appraisers with professional qualification and serious work experience and they also have to have 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.

Changes in the fair value of the investment properties or in the value of the sale of the investment property are reported in the profit or loss for the reporting period in which they have occurred.

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 probably 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 usage, 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 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 "revenue" and "other expenditures". As a rule the profit from investment property (renting) is an investment profit and is stated separately.

5.9 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 methods used for its valuation and whether the revenues and expenses are reported in the Comprehensive Income Statement 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 could 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 the financial assets and liabilities reported at fair value in the profit or loss.

A write off of a financial asset is affected 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 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 passed due as of the balance sheet date or when objective evidence exists that the counterparty would not honor its obligations. All other assets are tested for impairment in groups, determined based on 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 defaults of counterparties in each group identified.

5.10 Inventories and construction work in progress

The Company operates only by contracting various activities to different 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). In the cost of the finished goods (real estate – apartments, commercial properties and etc.) is included as an element and a portion of the value of the land that corresponds to its impairment due to limited rights of disposal. The land shall be valued (according to the Bulgarian legal framework too) by independent licensed appraiser at least once annually.

The direct expenditures are accumulated in the moment of their incurrence by batches for the particular projects, and the indirect expenditures are distributed proportionally to the direct expenditures incurred for the project.

The inventories include materials and finished goods. In the cost of inventories are included the purchase cost and other directly attributable costs related to the delivery. The financial expenses are included in the value of the inventories (work-in-progress) as their attachment to the particular project is analytically taken into account. 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 to 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.

5.11 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.

5.12 Cash and cash equivalents

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

5.13 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 Special Purpose Vehicles Act 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 Commercial Law. The profit for distribution is the financial result (accounting profit/ loss) corrected as follows:

1. increased/ decreased with the losses/ gains from subsequent asset valuations;
2. increased/ decreased with the losses/ gains from transactions transferring ownership of real estate;
3. increased/ decreased in the year of the ownership transfer of the real estate properties with the positive/ negative difference between:
 - a) the asset's selling price; and
 - b) the sum of the asset's historical price and the subsequent expenses resulting in increase of 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 – preference 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 the shareholders' equity of the Company.

5.14 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.

5.15 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.

5.16 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 persons 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.

5.17 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 4.18.

5.18 Uncertainty of the approximate accounting estimates

Preparing the financial report the management is related to 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.

5.18.1. 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.

5.18.2. Useful life of the amortizing assets

The management revises the useful life of the amortizing assets at the end of each reporting period. By March 31 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 5. The actual useful life may be different from the estimated one due to technical and moral wearing out of mainly software products and computer equipment.

6. Property, machines, facilities and equipment (Tangible assets)

After their initial recognition the investment property is reported using the reasonable value method. In compliance with the Law on the special purpose vehicles the Board of Directors has assigned the implementation of evaluation of all the properties owned by the Company as of 31.12.2012 to the independent appraiser Dobi 02 OOD. The results of the evaluation shall be reported in the final annual financial statement of the Company.

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

	Land	Facilities	Computers and other equipment	Vehicles	Total
	'000 BGN	'000 BGN	'000 BGN	'000 BGN	'000 BGN
Carrying value					
Balance as of 1 st January 2011	4 435	545	3	4	4 983
Newly acquired assets	-	-	-	-	-
Modification as a result of revaluation	65	-	-	-	65
Written-off assets	-	-	-	-	-
Balance as of 31st December 2011	4 500	545	3	-	5 048
Depreciation					
Balance as of 1 st January 2011	-	(9)	(3)	-	(12)
Written-off depreciation	-	-	-	-	-
Depreciation	-	(55)	-	-	(55)
Balance as of 31st December 2011	-	(64)	(3)	-	(67)
Book value as of 31st December 2011	4 500	481	-	-	4 981

	Land	Facilities	Computers and other equipment	Total
	'000 BGN	'000 BGN	'000 BGN	'000 BGN
Carrying value				
Balance as of 1 st January 2012	4 500	545	3	5 048
Newly acquired assets	-	-	-	-
Modification as a result of revaluation	-	-	-	-
Written-off assets	-	-	-	-
Balance as of 31st December 2012	4 500	545	3	5 048
Depreciation				
Balance as of 1 st January 2012	-	(64)	(3)	(67)
Written-off depreciation	-	-	-	-
Depreciation	-	(54)	-	(54)
Balance as of 30th September 2012	-	(118)	(3)	(121)

**Book value as of 31st December
2012**

4 500	427	-	4 927
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Land owned by the Company has been impaired in the past 2011 with a total of BGN 65 thousand (in 2010 the revaluation of the land has been BGN 2 292 thousand).

7. 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.

The next table presents the changes in the value of the investment property in 2011 and 2012.

Investment Properties	'000 BGN
Book value as of 1st January 2011	50 055
Newly acquired assets	
Net loss from changes in fair value	
Book value as of 31st December 2011	50 055
Newly acquired assets	2 001
Written – off assets	(5 638)
Net profit from changes in fair value	(1 557)
Book value as of 31st December 2011	44 861

Investment Properties	'000 BGN
Book value as of 1st January 2012	44 861
Newly acquired assets	
Net loss from changes in fair value	-
Book value as of 31st December 2012	44 861
Newly acquired assets	9
Written – off assets	(2 175)
Net profit from changes in fair value	
Book value as of 31st December 2012	42 695

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

The construction of the project "Marina Cape" was entirely completed in 2010 and more particularly Zone 4 in the project was finished for which the Company received Certificate for exploitation in August 2010.

As of 31.12.2012 only the “Borovets Grand” project is reported as “work-in-progress”. The amount of BGN 1 123 thousand reported as work-in-progress represents accumulated expenses related to property sales in the vacation complex “Marina Cape” which shall be recognized as expenditures in the moment of the income recognition of property sale with notary need or with transfer of the right to use in compliance with the principle of matching revenues with expenses.

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. This is reflected both in the urban decision, flexible 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 m² and forming a total gross floor area over 66 000 m², 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 (27 in total), the majority of which are residential, with the exception of the sectors which are intended for: bank office, sport playground area, children’s center and Sector 27 – a restaurant on two levels. In 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 m² with a pool bar and a children swimming pool and in the north-east side is located a another pool covering an area of 470 m².

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

The total area of the trade and public objects in the complex is nearly 12 000 m². For the purposes of the complex are constructed and put into operation a new incoming water supply, sewerage and electricity grid. Rehabilitation of the existing roads and streets in the region is completed and an entirely new road link is constructed. 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 penthouses. The Borovets Hotel Complex is located in the old center in the Borovets Resort. At the same place, a summer cinema has functioned 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, 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 m². The complex has a covered parking lot on two levels with 34 places and an open one with 16 places as well.

The residential part of the complex consists of 75 residences with total gross floor area of 5 175 m². They are 41 studios, 14 apartments mainly with one bedroom, and a big variety of penthouses. In the surrounding area will be realized a project to plant, with alleys and part lighting and the pine forest will be preserved.

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

1. Towards „Piraeus Bulgaria Bank" AD

1.1. Contract for an investment credit № 1236/2007, concluded on 19.10.2007 for the amount of 4 500 000 (four million and five hundred thousand) EUR to finance the construction of a complex of residential buildings for a seasonal use "Marina Cape", Aheloy Town, Pomorie Municipality, Bourgas Province.

- Deed of incorporation of mortgage contract from 08.11.2007, № 112, vol. XII, reg. № 3901, case № 2217/2007 of a notary Hristo Roidev, collateral of bank credit № 1236/2007, concluded on 19.10.2007;
- Deed of incorporation of mortgage contract from 04.12.2000, № 80, vol. VII, reg. № 4288, case № 1226/2009 of a notary Gergana Nedina, collateral of bank credit № 1236/2007, concluded on 19.10.2007, Annex A1-1236 from 16.01.2009 and Annex A2-1236 from 19.10.2009;
- Pledge contract on receivables №1236-1/2007, concluded on 23.10.2007, collateral of investment credit № 1236/2007 - Registered pledge on receivables from concluded contracts for sale of detached residential properties in the complex "Marina Cape", described in detail in an enclosure to the contract entered in the Central Pledges Register on 07.11.2007;
- Pledge contract on receivables №1236-2/2007, concluded on 23.10.2007, collateral of investment credit № 1236/2007 – Registered pledge on receivables of cash funds from the special bank account of the company at "Bank Piraeus Bulgaria" AD – entered in the Central Pledges Register on 07.11.2007;
- Pledge contract on receivables №1236-4/2009, concluded on 19.10.2009, collateral of investment credit № 1236/2007 - Registered pledge on receivables from concluded contracts

for sale of detached residential properties in the complex "Marina Cape", described in detail in an enclosure to the contract entered in the Central Pledges Register on 03.12.2009.

1.2. Contract for an investment credit № 736/2008, concluded on 07.07.2008 for the amount of 3 000 000 (three millions) EUR to finance construction-assembly and finishing works in complex of residential buildings for seasonal use "Marina Cape", Aheloy Town, Pomorie Municipality, Bourgas Province.

- Deed of incorporation of mortgage contract from 09.07.2008, № 35, vol. VIII, reg. № 2387, case № 1404/2008 of a notary Hristo Roidev, collateral of bank credit № 736/2008, concluded on 07.07.2008;
- Pledge contract on receivables № 736 – 1/2008, concluded on 07.07.2008, collateral of bank credit № 736/2008 from 07.07.2008 – Registered pledge on receivables from concluded contracts for sale of detached residential properties in the complex "Marina Cape", described in detail in an enclosure to the contract in the Central Pledges Register.
- Pledge contract on receivables № 736 – 2/2008, concluded on 07.07.2008, collateral of bank credit № 736/2008r. from 07.07.2008 r. - Registered pledge on receivables of cash funds from the special bank account of the company at "Bank Piraeus Bulgaria" AD – entered in the Central Pledges Register;
- Pledge contract on furniture and facilities № 736 – 3/2008, concluded on 10.07.2008, collateral of bank credit № 736/2008 from 07.07.2008 – Registered pledge on furniture and facilities of the apartments from Zone 4 in "Marina Cape" Complex, Aheloy Town, Pomorie Municipality;
- Deed of incorporation of mortgage contract from 04.12.2009, № 80, vol. VII, reg. № 4288, case № 1226/2009 of a notary Gergana Nedina, collateral of bank credit № 736/2008, concluded on 07.07.2008, Annex A1-736 from 16.01.2009 and Annex A2-736 from 19.10.2009.

1.3. Contract for an investment credit № 327/2009, concluded on 14.12.2009 for the amount of EUR 3 300 000 (three millions and three hundred thousand Euro) to finance payments on dividends and finishing works and infrastructure of "Marina Cape" project, Aheloy Town, Pomorie Municipality, Bourgas Province.

- Deed of incorporation of mortgage contract from 21.12.2009, № 162, vol. VII, reg. № 4500, case № 1306/2009 of a notary Gergana Nedina, collateral of bank credit № 327/2009, concluded on 14.12.2009;
- Pledge contract on receivables № 327-1/2009, concluded on 14.12.2009, collateral of bank credit № 327/2009 from 14.12.2009 - Registered pledge on receivables from concluded contracts for sale of detached residential properties in the complex "Marina Cape", described in detail in an enclosure to the contract in the Central Pledges Register;
- Pledge contract on receivables № 327-4/2009, concluded on 14.12.2009 - Registered pledge on receivables of cash funds from the special bank account of the company at "Bank Piraeus Bulgaria" AD – entered in the Central Pledges Register.

2. Towards "DSK Bank" EAD

2.1 Contract for a credit № 716/2008, concluded on 18.09.2008 for the amount of EUR 4 500 000 (four millions and five hundred thousand Euro) to finance/refinance an investment project for construction of residential hotel in Borovets Resort.

- Deed of incorporation of mortgage contract from 26.09.2008, № 81, vol. VA, reg. № 7186, case № 846/2008 of a notary Borislav Mehandgiiski, collateral of bank credit № 716/2008,

concluded on 18.09.2008, including land property and a building right with identification number 65231.918.189 with a building right on 77 separate entities;

- Deed of incorporation of mortgage contract from 28.10.2009, № 154, vol. VI, reg. № 3867, case № 1102/2009 of a notary Gergana Nedina, collateral of bank credit № 716/2008, concluded on 18.09.2008, Annex №1 from 29.01.2009 and Annex № 2 from 17.09.2009, including retail stores, located in Marina Cape Complex, Aheloy Town, Pomorie Municipality, Bourgas Province.
- Pledge contract on receivables from contracts for sale of real estate properties, described in detail in an enclosure to the Loan contract № 716 concluded on 19.09.2008, entered in the Central Pledges Register on 14.10.2009.

2.2. Contract for a credit № 717/2008, concluded on 18.09.2008 for the amount of 500 000 (five hundred thousand) EUR to finance due VAT in the period of construction of residential hotel in Borovets Resort.

- Deed of incorporation of mortgage contract from 26.09.2008, № 82, vol. VA, reg. № 7189, case № 847/2008 of a notary Borislav Mehandgiiski, collateral of bank credit № 716/2008, concluded on 18.09.2008, including land property and building right with identification number 65231.918.189 with a building right on 77 separate entities;
- Pledge contract on receivables from contracts for sale of real estate properties, described in detail in an enclosure to the Loan contract № 717 concluded on 19.09.2008, entered in the Central Pledges Register on 14.10.2009.

With Annex № 7 of Loan Contract No 717 and Annex №6 of Loan Contract №716 between the Company and DSK Bank AD from 27th February 2012 the gratis period for principal payment of the loan amounting to EUR 451 790 is extended to 24th July 2012 and for the principal of EUR 3 500 000 the gratis period is 24th July 2012. The deadline for repayment of both credits is 31st July 2012.

3. Towards „Central Cooperative Bank” AD:

3.1. Contract for a bank credit № 42317KR-AA-1505, concluded on 02.10.2009 for the amount of 500 000 (five hundred thousand) EUR to finance activities of the Company:

- Deed of incorporation of mortgage contract from 02.10.2009, № 58, vol. VI, reg. № 3564, case № 1013/2009 of a notary Gergana Nedina, collateral of bank credit № 42317KR-AA-1505, concluded on 02.10.2009, including commercial properties in Marina Cape Complex, Aheloy Town, Pomorie Municipality, Bourgas Province.

8. Intangible non-current assets

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

Intangible assets	License ‘000 BGN	Total ‘000 BGN
Carrying value		
Balance at 1 st January 2011	3	3
Newly acquired assets		
Written-off assets		
Balance at 31 st December 2011.	3	3

Depreciation and impairment

Balance at 1 st January 2011	(2)	(2)
Written-off assets		
Depreciation		
Balance at 31 st December 2011	(2)	(2)
Book value at 31st December 2011	1	1

Intangible assets

Carrying value

	License '000 BGN	Total '000 BGN
Balance at 1 st January 2012	3	3
Newly acquired assets	-	-
Written-off assets	-	-
Balance at 31 st December 2012	3	3

Depreciation and impairment

Balance at January 01, 2012	(2)	(2)
Written-off assets	-	-
Depreciation	(1)	(1)
Balance at 31 st December 2012	(3)	(3)
Book value at 31st December 2012	0	0

9. Investments in subsidiaries

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

Name of the subsidiary	31.12.2012 '000 BGN	% ownership	31.12.2011 '000 BGN	% ownership
Marina Cape Management EOOD	5	100	5	100
Total	5		5	

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

	31.12.2012 '000 BGN	31.12.2011 '000 BGN
Assets	3 777	3 263
Liabilities	4 125	3 719
Revenues	2 358	2 378

10. Work in progress

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

Work-in-progress	31.12.2012 '000 BGN	31.12.2011 '000 BGN
Project Marina Cape*	1 123	1 170
Project Grand Borovets	7 525	7 525
Total	8 648	8 695

As of 31.12.2012 the Company accounts as “work-in-progress” only the project “Borovets Grand” in the complex Borovets. Due to the completion of the construction works in Zone 4 in the vacation complex “Marina Cape” and the conclusion of the completion works on all the rest properties in the project, as of 31.12.2012 there are no properties in “Marina Cape” that are reported in the item “work-in-progress”. The reported value (1 123 units) represents expenses for property sales – brokerage commissions and advertising expenses for the real estate properties in the “Marina Cape” project which shall be recognized as expenditures in the moment of the income recognition (the final transfer of the ownership on the properties or the establishment of the right to use over them).

11. Trade receivables

The more significant receivables from customers are reported in the following table, incl. receivables from related parties:

Trade Receivables	31.12.2012 ‘000 BGN	31.12.2011 ‘000 BGN
VEI Project AD		1 771
Others	309	507
Total	309	2 278

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

The Company has client receivables with current nature which are due in 180 to 360 days. The average amount of client receivables not mentioned above is BGN 3,000 (for 38 clients).

All trade receivables of the Company are revised for impairment indications. The Company does not have expectations that the due customers payments will not be paid pursuant to the advanced concluded contracts.

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

12. Advances granted

Supplier receivables are presented in the following table:

Suppliers receivables	31.12.2012 ‘000 BGN	31.12.2011 ‘000 BGN
Ventenergy OOD	131	131
Trace Bourgas EOOD	85	85
Others	31	34
Total	259	250

Suppliers’ receivables represent advances paid to them for the performance of activities related to the landscaping of the Borovets Grand Complex.

The receivable from Trace Bourgas EOOD is related to the road connection built at the Marina Cape Complex; the Board of Directors has initiated talks with the Pomorie municipality about the transfer of the aforementioned road connection to the municipality..

13. Money

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

The money includes the following components:

	31.12.2012 ‘000 BGN	31.12.2011 ‘000 BGN
Money in cash and in bank accounts:		
- BGN	1	63
- EUR	99	143
Total	100	206

14. Shareholder’s equity

14.1 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.

	31.12.2012 ‘000 BGN	31.12.2011 ‘000 BGN
Issued and fully paid shares		
- at the beginning of the year	6 011 476	6 011 476
- issued during the year		
Total shares, authorized	6 011 476	6 011 476

14.2 Revaluation reserve of assets

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

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

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

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

In the calculating of the evaluation is used the following:

- Information obtained by the inspection of the object;

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

15. Liabilities to financial institutions

	31.12.2012 '000 BGN	31.12.2011 '000 BGN
Bonds		
Incl. long-term liabilities		6 845
Incl. short-term (up to 1 year) liabilities	6 845	978
Total	6 845	7 823
Bank Loans		
Incl. long-term liabilities	2 582	11 995
Incl. short-term (up to 1 year) liabilities	25 826	15 700
Total	28 408	27 695

The next table presents the principals on the loans received by the Company from financial institutions divided according to the obligation's maturity.

Name of the credit institution	Short-term obligation in EUR	Long-term obligation in EUR	Maturity
DSK EAD	3 951 790.00		25.07.2013
PIRAEUS BANK AD	2 535 185.53		28.02.2013
PIRAEUS BANK AD	2 562 618.59		28.02.2013
PIRAEUS BANK AD	1 795 370.93	1 320 000.00	30.10.2015

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

Name of the credit institution	Interest rate	Maturity	Currency of the payments
DSK EAD	3M Euribor + 8%	25.07.2012	Euro
PIRAEUS BANK AD	3M Euribor + 7%	28.02.2013	Euro
PIRAEUS BANK AD	3M Euribor + 7%	28.02.2013	Euro
PIRAEUS BANK AD	3M Euribor + 7%	30.10.2015	Euro

The Company issued bond loan in 2007 which is secured only by insurance against financial risk issued by EuroIns AD. In the memorandum for the placement of the issue it is stated that the funds will be used mainly for purchase of land property in Sofia. The bond loan was issued on 14th August 2007. The initial term was 3 years. The amount of the issue was EUR 5 million (BGN 9 779 thousand). The principal should be paid at the end of the period, and the interests were paid semi-annually. The coupon was 9%. The Company's total expenditure was estimated to about 10.2% annually. The initial maturity date of the issue was 14th August 2010.

On 6th August 2010, a General Meeting of the company's bondholders was held that took the following resolutions:

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

1. Extension of the issue by 36 months (from 14.08.2010 to 14.08.2013);

2. Interest on the bond is amended to 9.5% and it is payable every three months;
3. Scheme to repay the bond loan is amended as follows:
 - 3.1. Repayment of the principal:

2010		2011		2012		2013	
Date	Amount (EUR)	Date	Amount (EUR)	Date	Amount (EUR)	Date	Amount (EUR)
14.08.	500 000	14.02.	125 000	14.02.	125 000	14.02.	125 000
		14.05.	125 000	14.05.	125 000	14.05.	125 000
		14.08.	125 000	14.08.	125 000	14.08.	3 250 000
		14.11.	125 000	14.11.	125 000		

- 3.2. Maturity dates of interest payments in the extended period:

Date of interest payment	Days in interest period	Days	Interest rate	Amount of due interest (EUR)
14.11.2010	92	365	9.5%	107 753
14.02.2011	92	365	9.5%	107 753
14.05.2011	89	365	9.5%	101 344
14.08.2011	92	365	9.5%	101 767
14.11.2011	92	365	9.5%	98 774
14.02.2012	92	366	9.5%	95 519
14.05.2012	90	366	9.5%	90 523
14.08.2012	92	366	9.5%	89 549
14.11.2012	92	366	9.5%	86 564
14.02.2013	92	365	9.5%	83 808
14.05.2013	89	365	9.5%	78 180
14.08.2013	92	365	9.5%	77 822

4. ICPD shall establish the following collateral for the bond issue:

4.1. Collateral under Art. 100, par. 1 of the Law on the Public Offering of Securities: from the insurance of EuroIns AD, covering the risk of default by the issuer for the interest or the principal payments for the new term of the issue;

4.2. Additional collateral: Establishing a second mortgage on 7 835.99 m² of commercial properties in the vacation complex "Marina Cape", Aheloy (described in an annex to the written materials) in favor of the trustee of the bondholders "Investbank" AD within no later than one month after the date of the General meeting of the bondholders.

5. Other conditions:

5.1. Restricting the payment of obligations to the servicing company (IP Intercapital Markets AD) amended as follows:

- ✓ the remuneration of 20% of the profit is due after the full repayment of the bond;
- ✓ the remuneration of 2% of assets annually is amended as follows:

Remuneration of 2% annually of the equity. This remuneration is calculated and paid on every three months, as it is calculated 0.5% of the equity. The difference between the old remuneration - 2% of the assets annually, and the new 2% annually of the equity becomes payable after the repayment of the bond.

Prepayment:

The Company has the right to repay early all or part of the outstanding principal on the bonds. Repayment may be made only on interest payment date and after providing one month's notice to the bondholders. The minimum amount that the company could repay early and partially is 250 000 EUR or 5% of the initial amount of issue.

In fulfillment of its obligations regarding the renegotiation of the bond for collateral of the bondholders' receivables in favor of the trustee bank on the bond issue - "Investbank" AD is established second mortgage on 24 (twenty four) independent retail stores with total area of 7 835.99 m² owned by the Company located in the complex "Marina Cape" Aheloy, Pomorie Municipality Bourgas Province. The contract for mortgage was concluded under a notary deed for establishing conventional mortgage as of 1st September 2010, № 158, Vol. IV, registration № 3289, case № 732/2010 of a notary Gergana Nedina.

In addition, with regard to the signing of insurance policy with EuroIns AD, covering the risk of default by the Company for interest or principal payments for the new date of the issue, and to ensure the receivable of Euroins AD from Intercapital Property Development ADSIC in the amount of 84 000 EUR, representing part of the premium due under the insurance policy of 104 000 EUR, in favor of Euroins AD was established a mortgage on 2 separate objects, with total area of 108.65 m² owned by the Company located in the complex "Marina Cape" Aheloy, Pomorie Municipality Bourgas Province.

According to the requirements of paragraph 40 of IAS 39 "Financial Instruments recognition and valuation" the Company management has performed an analysis of the agreed terms of the bond issue. Discounting the newly agreed cash flows using the initial effective interest rate gives a value subject to amortization that does not differ by more than 10% of the current amortized value of the debt. This is why the Company does not believe the existing debt has expired and the creation of a new one, but rather the old debt is maintained under new conditions. With that regard the 31st December 2010 financial statements do not include any effects from the rescheduling of the bond issue.

16. Trade payables

The next table represents the most significant obligations of ICPD ADSIC as of 31.12.2012.

Trade accounts payable (to suppliers)	31.12.2012 ‘000 BGN	31.12.2011 ‘000 BGN
VEI Project AD	1 647	2 347
Telelink AD	498	547
IP Intercapital Markets AD	198	97
BTC AD	42	28
Midia AD	2 174	2 174
Titan Bulgaria AD	-	-
Intercapital Solicitors OOD	27	27
Ventenergy OOD	11	31
Delta Capital International	75	125
Others	781	771
Total	5 453	6 147

These liabilities have arisen in relation to concluded contracts for construction of the “Marina Cape” project – a complex of residential buildings for seasonal usage and for the “Borovets Grand” project. The repayment amounts will be finalized in 2013.

The most significant obligation is to the main constructor “Midia” AD. The obligations toward Titan Bulgaria OOD and Intercapital Solicitors OOD are due to transferred receivables (through cessions) from IP Intercapital Markets AD to the former companies.

Except the obligations to the construction company, which represent the greatest part of all liabilities of ICPD, the Company has obligations due to received advance payments from clients to whom the Company shall render ready apartments according to the specific terms agreed.

17. Advances received from Clients

Trade accounts payable (to clients)	31.12.2012 ‘000 BGN	31.12.2011 ‘000 BGN
Midia AD	481	481
Vila OOD	77	62
Dao OOD	82	36
Dao Real EOOD	3	3
Rik-MT OOD	-	5
International individuals	5 274	5 071
Guarantee deposits from clients under contracts	2 876	2 968
Others	106	
Total	8 899	8 626

18. Tax payables

	31.12.2012 ‘000 BGN	31.12.2011 ‘000 BGN
VAT for payment	567	361
Amounts due under the Law on the personal income taxation	2	-
Total	569	361

The obligation in the amount of BGN 567 thousand as of 31st December 2012 represents VAT – BGN 567 thousand and payables under the Law on the personal income taxation amounting to BGN 2 thousand that shall be paid in the first quarter of 2013.

19. Amounts due to the staff and social security institutions

	31.12.2012 ‘000 BGN	31.12.2011 ‘000 BGN
Salaries due	20	20
Social contributions due	2	3
Total	22	23

20. Other Liabilities

	31.12.2012 ‘000 BGN	31.12.2011 ‘000 BGN
IP Intercapital Markets AD	-	1 495

Technos OOD	31	31
Titan Bulgaria OOD – penalty	17	83
Total	48	1 609

The obligations to IP Intercapital Markets AD as of 31st December 2012 are due to a contract for consulting services. The investment intermediary is chosen by the Constitutive Assembly of the shareholders of ICPD ADSIC and is obliged to present investment advices, to prepare motivated proposals for changes in the investment objectives and directions in the investment activity as well as to advise ICPD in the preparation of prospectuses for public offering of securities and to cooperate in the organization and the realization of public issues of securities and etc.

The obligations to clients are due to signed preliminary contracts for sale of real estate properties with a clause for submission of a guarantee deposit to ensure the fulfillment of the provisions of the signed agreements by the client. The deposits shall be released, respectively returned to the clients after the complete payment of the purchase price pursuant to the preliminary contracts and the transfer of the ownership over the real estate properties.

With an Annex dated 29th March 2012, ICPD and Intercapital Markets AD have agreed that the tax of 20% of the revenue, composed as the difference between the sum of revenues from sale of real estate and their book value, if positive, would be charged and payable as of 1st January 2015.

21. Sales Revenues

	31.12.2012 ‘000 BGN	31.12.2011 ‘000 BGN
Sale of investment properties	1 742	4 152
Management of investment properties	413	510
Other revenues	1 754	4
Total	3 909	4 666

22. Expenses for materials

	31.12.2012 ‘000 BGN	31.12.2011 ‘000 BGN
Expenses for electricity and heating	(47)	(32)
Expenses for furnishing and equipment		
Lighting		
Elevators		
Others	(6)	(3)
Total	(53)	(35)

23. Expenses for external services

	31.12.2012 ‘000 BGN	31.12.2011 ‘000 BGN
Sales expenses – brokerage commissions	(31)	(221)
Advertisement	(42)	(22)
Consulting services	(197)	(363)
Maintenance and management services	(585)	(640)
Fees and other services	(208)	(465)
Telecommunications services	(29)	(42)
Other	(148)	(63)

Total	(1 240)	(1 816)
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24. Expenses for salaries and social security contributions

	31.12.2012	31.12.2011
	'000 BGN	'000 BGN
Expenses for salaries	(143)	(144)
Expenses for social security contributions	(15)	(14)
Total	(158)	(158)

25. Other expenses

	31.12.2012	31.12.2011
	'000 BGN	'000 BGN
Others	(13)	(2 986)
Total	(13)	(2 986)

26. Book value of assets sold

In the item "Book value of sold assets" the Company records the book value of the alienated investment properties. The investment property could be written off in case of a sale or in case of an establishment of a right to use in favor of third party. The Company applies the IAS 18 for revenue recognition from sale of goods or uses the Appendix to IAS 18.

Book value of sold assets (incl. investment property)	31.12.2012	31.12.2011
	'000 BGN	'000 BGN
Commercial properties	-	-
Residential properties	2 175	5 638
Total	2 175	5 638

27. Financial expenses and financial income

The financial expenses for the presented periods include the following elements:

	31.12.2012	31.12.2011
	'000 BGN	'000 BGN
Financial revenues		5
Interest Expenses on bank loans	(2 041)	(2 958)
Interest Expenses on Bond Issues	(703)	(904)
Other interest expenses		(1)
Losses from foreign exchange operations	(2)	(5)
Other financial expenses (fees on renegotiation of bank loans and forfeits)	(118)	(375)
Total financial expenses/income	(2 864)	(4 238)

28. Tax expenses

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

29. Per share Profit/Loss

The basic and diluted profit/loss per share are calculated using the net profit/loss subject to distribution among the Company's shareholders.

The weighted average number of shares used for the calculation of the basic profit/loss per share as well as of the net profit/loss subject to distribution among the holders of ordinary shares, is as follows:

The following table summarizes the number of shares and profit/loss used in the calculations:

	31.12.2012	31.12.2011
Profit / (Loss) for distribution (in BGN '000)	(2 696)	(10 442)
Weighted average number of shares (in '000)	6 011	6 011
Basic Profit / (loss) per share (in BGN)	(0.45)	(1.74)

For the purposes of distribution of dividends to shareholders the financial results are subject to an adjustment according to point 5.13. of the accounting policy.

30. Transactions with related parties

The Company's related parties are the Company's shareholders, the key management personnel and other related parties which are described below. Unless otherwise stated, the transactions with related parties are carried out under no special conditions. They have neither received nor have given any guarantees.

30.1 Transactions with subsidiaries

	31.12.2012 '000 BGN	31.12.2011 '000 BGN
Sale/purchase of goods and services		
- ICPD sells equipment to "Marina Cape Management" EOOD		
- Services rendered by "Marina Cape Management" EOOD to ICPD	988	572
- Services rendered by ICPD to "Marina Cape Management" EOOD	1 251	1 449

In 2012 Intercapital Property Development ADSIC has not concluded transactions with the subsidiary company "Marina Cape Management" EOOD.

30.2 Related party balances

Receivables from subsidiaries	31.12.2012 '000 BGN	31.12.2011 '000 BGN
Current:		
Marina Cape Management EOOD	1 251	1 449
Total current receivables from related parties	1 251	1 449

The receivable of ICPD from its subsidiary "Marina Cape Management" EOOD in the amount of BGN 1 251 thousands as of 31st December 2012 is due to the contracts for management and maintenance services, as well as rents:

- Services under contract for management – BGN 331 thousand;
- Rent from retail properties – BGN 920 thousand;

Liabilities to subsidiaries	31.12.2012 '000 BGN	31.12.2011 '000 BGN
Current:		

Marina Cape Management EOOD	988	572
Total current liabilities to subsidiaries	988	572

31. Risk management policy and objectives

The company regularly analyzes the liquidity of its assets and liabilities.

(a) Market risk

(-) Currency risk.

The expenses of the Company are denominated in BGN or in EUR. The expenses denominated in BGN are related to the construction and the operation of the real estate properties. The cost of the real estate properties most often is negotiated in EUR. On the other hand, all earnings are negotiated in EUR.

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. The Company has been only exposed on a currency risk in conducting transactions with currencies other than BGN and EUR in the presented reporting periods.

The policy on currency risk management applied by the company is to have no substantial operations and to maintain no open positions in foreign currencies other than Euro.

The financial assets and the liabilities denominated in foreign currency are converted into BGN as of the end of the reporting period.

(-) Price risk.

The risk of increase in inflation is associated with reduction of the 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. 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 leads to a sharp decrease of 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 had to face the challenges of shutting down their operations or even falling into bankruptcy which had a negative effect on the employment in the sector.

In spite of the timid signs of improvement in certain sectors of the economy already visible from the middle of 2010, experts have much more cautious forecasts regarding the real estate sector and do not expect 2012 to be significantly better than 2011. During the last year at least it became clear that there is a market both for sellers and for buyers. For 2012, most experts expect this situation to remain unchanged. In spite of the numerous hurdles to the rapid recovery in the property development and construction sectors currently a certain stabilization of the market could be noticed in parallel with the increasing activity on behalf of banks in terms of mortgage lending.

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 affects much more than world prices rather than local factors. For that reason it could be lead to a situation 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 crises affect 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.

(-) 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. During 2009 and till the middle of 2010, this trend has strengthened because of continuing restrictions on funding for both sides - investors and buyers. A significant number of projects dropped due to financial crisis, most of them in the capital.

The global slowdown in the real estate sector carried over its negative impact on Bulgaria. One trend is the withdrawal of higher risk foreign investors from the Bulgarian market and the introduction of more conservative German and Austrian companies and funds.

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. This could be a swap of floating payments at a fixed interest rate, futures or other instruments. At the end of 2009 most of the obligations of the Company are floating rate based on EURIBOR. In this connection, the company is at risk from rising interest rates in the Eurozone. Since much of the debts of the company are long term, the governing body intends to purchase futures on EURIBOR, to neutralize the risk of increased interest on borrowings.

It should be noted that any increase in market interest rates are likely to adversely affect the prices and demand for real estate, since most of these transactions financed by loans.

(c) Credit risk

In its activity the Company may be exposed to credit risk when pays in advance (grant advances) of its suppliers or sales, claims (including the sale of deferred payment). Company policy provides for the avoidance as far as possible advances. 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.

32. 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 continue to exist in compliance with the going concern principle; and
- to ensure adequate return for the shareholders as determines 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.