

ERG CAPITAL - 3 ADSIP

FINANCIAL STATEMENTS,
PREPARED IN ACCORDANCE WITH
INTERNATIONAL FINANCIAL
REPORTING STANDARDS
31 DECEMBER 2015

TOGETHER WITH
INDEPENDENT AUDITORS' REPORT

AND

ANNUAL MANAGEMENT REPORT ON
THE ACTIVITY

**ANNUAL REPORT THE ACTIVITIES
FOR 2015**

ANNUAL MANAGEMENT REPORT ON THE ACTIVITY OF ERG CAPITAL – 3 ADSIP FOR 2015

21 March 2016

“ERG Capital – 3” ADSIP (“ERG-3” or “the Company”) is a Bulgarian joint stock company with special investment purpose. Its activity is governed by the Special Investment Purpose Companies Act (“SIPCA”) and its related regulations. The Company raises funds through the issue of securities and uses these funds to acquire real estate, in effect implementing real estate securitization.

In 2007, the Company was licensed as a Special Investment Purpose Company by the Financial Supervision Commission (“FSC”). In the same year the Company increased its capital by 50%.

Since its listing as a public company ERG-3 complies with its obligations under the agreements to which it is a party. Its activity is oriented towards managing and/or developing its own real estate investments (three as at the date of this report) in the cities of Sofia, Varna and Bourgas and described below and in Note 5 to the Financial statements.

ACTIVITY REVIEW

On 25 April 2007 the Financial Supervision Commission approved the prospectus for mandatory initial capital increase of ERG-3 and licensed the Company as a company with special investment purpose.

Below are the highlights of activity in 2015.

At the May 2015 Annual General Meeting of the Shareholders of ERG-3 (“AGM”), the Directors of the Company were released from responsibility for 2014 and a registered auditor was elected for 2015.

At the August 2015 Extraordinary General Meeting of the Shareholders of ERG-3 (“EGM”), Serdika Capital Advisors was replaced as servicing company of ERG-3 by Bulgarian American Management Company subject to the approval of the FSC, and an agreement was approved by the shareholders for this replacement and for the removal of certain fees for the servicing company. Later in August the replacement was approved by the FSC.

In the following discussion we present some comments regarding important aspects of the activity of the Company during 2015:

1. Liquidity

As of 31 December 2015 the Company’s cash and cash equivalents are in the amount of BGN 943 thousand and other current assets are in the amount of BGN 12 thousand. The current liabilities are in the amount of BGN 32 thousand.

In November 2014 the term of the Second bond issue was extended with three years, effective 21 February 2015.

2. Capital resources

As of 31 December 2015 ERG-3’s shareholders’ equity is BGN 17,182 thousand. The capital of the Company was paid in full and despite the accumulated losses for the period 2008 - 2015, and it is currently sufficient to support the Company’s business activity. At this stage, ERG-3 does not plan any future capital increases.

For each of the properties described below and in Note 5 to the Financial statements, the Company considers two alternatives: a/ to develop it as commercial property and lease it or sell it and b/ to sell it without development in its current condition. In the cases when the Company decides to develop a property, because the management deems this alternative better for the shareholders, the Company will have significant capital outlays for construction, which it is planning to finance with bank loans.

3. Information about the properties, owned by ERG-3 (Art. 41 of Ordinance 2 of FSC)

Acquisitions or sales of real estate investments

As of 31 December 2015 the Company owned three real estate investments: “Yavor property”, “Sofia Ring property” and “Bourgas retail property”.

3. Information about the properties, owned by ERG-3 (Art. 41 of Ordinance 2 of FSC) (continued)

Yavor property represents a 14,483 sq.m. land plot (the cadastre measured area is 14,724 sq.m.) and buildings, located in Varna, with administrative address 2 Oreh Str. The property is on Slivnitsa Blvd, which is one of the main boulevards in Varna. The land represents regulated land plot № I-65, located in district 14 from the 26th region of Varna and has cadastre identification number 10135.3513.216. During 2009 part of the buildings were demolished. The total built-up area of the buildings as of 31 December 2015 is 14,916 sq.m. (the cadastre measured area), the biggest of which was built in 1989 with total built-up area of 13,383 sq.m., and could be used in future development. The maximum building-development intensity for plot № I-65 is 3.5, which means possible construction of buildings with total built-up area of up to 51,534 sq.m., according to the city plan.

Sofia Ring property represents 131,284 sq.m. land plot located on the inner side of the Ring Road with 400 meters face on the Ring Road close to the intersection with Botevgradsko Shosse. The land consists of two regulated land plots with maximum building development intensity 1.5, which means possible construction of buildings with total built-up area of up to 196,926 sq.m.

Bourgas retail property represents 24,966 sq.m. land plot (the cadastre measured area is 24,959 sq.m.) adjacent to Todor Aleksandrov Blvd, which is one of the main boulevards in Bourgas. The plot consisted of two regulated land plots: LI - 265 and L – 636, which in 2009 were united in one regulated land plot L-265,636 and has cadastre identification number 07079.659.505. The property is cleared from buildings and construction scrap. According to the effective regulation and the city plan the property is in the 3/СмФ1 zone, which, according to the existing standards allows maximum building development intensity up to 2.5 and respectively the possible construction of buildings with total built-up area up to 62,397.5 sq.m

Acquisitions and disposals of real estate investments in 2015

During 2015 the Company did not have any acquisitions and disposals of real estate.

Lease agreements executed in 2015

In 2015 the Company did not execute new lease agreements.

Construction works, repairs and improvements made in 2015:

During 2015 ERG-3 did not make any significant constructions works, repairs and improvements to the properties it owns.

4. Results from operations

The Company ended 2015 with a loss for the year of BGN 2,576 thousand.

During 2015 the Company recognised an impairment loss on investment properties of 1,873 thousand BGN and interest expense of 574 thousand BGN.

5. Risks

The Company is operating in the area of real estate investment and the main risks it faces are related to the development of the real estate sector in Bulgaria and to retail space in particular. Listed below are the main Company specific risk factors:

- Rising construction costs
- Rising interest rates
- Market price decreases of both real estate assets and rental levels
- Increase in the cost of insurance
- Dependence of the income stream on the financial condition of the future tenants
- Unexpected maintenance expenses
- Risk of occurrence of an uninsured event.

In addition to the Company specific risk factors, ERG-3 also faces some general risks, associated with doing business in Bulgaria. These are as follows:

- Risk of unfavorable legislative changes
- Risk of economic downturn
- Credit risk
- Currency risk
- Inflation risk.

In 2015 the Bulgarian real estate sector for big commercial properties remained depressed, which will likely continue during 2016. This and the worsening macroeconomic situation could significantly adversely affect the Company's financial condition and results of operations. It could have negative effect on tenants' financial position, decreased interest from retailers and/or result in reduction of the prices of the real estate properties owned by the Company.

6. Important events after the date of the Financial Statements

No important events (other than the ones described in this report) have occurred after the date of the Financial Statements until the date of this report that might have significant impact to the financial position and the operating results of the Company.

7. Expected developments and plans for 2016

At this stage, the Company does not plan any further capital increases or new real estate acquisitions. For each of the properties described above and in Note 5 to the Financial statements, the Company is currently exploring the following alternatives: a/ to develop it as a commercial property and lease it or sell it or b/ to sell it without development in its current condition. In the cases when the Company decides to develop a property, because the management deems this alternative better for the shareholders, the Company will have significant capital outlays for construction, which it is planning to finance with bank loans.

8. Research and development

ERG-3 is operating in the real estate sector and is not involved in any research and development activities.

9. Use of financial instruments

As at 31 December 2015 the Company has outstanding bond in the amount of EUR 2,890 thousand (out of issued EUR 6,800 thousand) maturing on 21 February 2018. The bond has coupon of 10.5% and it is secured by mortgage on property of the Company. The interest is due at the bond's maturity (*Please refer also to Part 1 Liquidity above*).

10. Branches

ERG-3 has not registered and does not have any branches.

11. Share buy backs

Unlike the other public companies the companies with special investment purpose are not allowed by law to buy-back their own shares under the conditions of art.111, (5) of the Public Offering of Securities Act (POSA). Therefore, by virtue of the law, ERG-3 is not allowed to purchase or own any of its shares and the Company has never traded in its own shares.

CORPORATE GOVERNANCE

The Company adopted its Good Corporate Governance Program (GCGP) in 2007. During 2015 the activities of the Company and of the Board of Directors have been in compliance with the GCGP.

The discussion in the following sections provides additional information on the Company's share capital and disclosures related to its corporate governance.

SHARES OF THE COMPANY

1. Capital structure

Share Capital (item 1, Appendix 11 to Ordinance 2 of FSC)

At 31 December 2015, the Company has outstanding share capital of BGN 2,100 thousand comprising of 2,100,000 shares, each with a nominal value of BGN 1. All the issued and outstanding shares are fully paid-up. During 2015 there were no changes in the number of shares outstanding.

ERG-3 has a single class of ordinary shares, representing 100% of its registered capital. Each of the shares ranks pari passu amongst themselves, with no preferential rights attached to any of the shares. Each share entitles its holder to one vote at a general meeting of shareholders, to dividends when declared and to participate in a liquidation of the Company in proportion to the nominal value of the share. The Company does not have non-listed shares.

The following table shows the issued and outstanding share capital of the Company at the dates indicated:

	Number of issued shares	Paid-up share capital (thousand BGN)
31 December 2014	2,100,000	2,100
31 December 2015	2,100,000	2,100

Pre-emption Rights

Each holder of shares has pre-emptive rights to subscribe for any new shares or convertible bonds issued by the Company pro rata to its existing holding of shares. The number of shares required to subscribe for one new share or convertible bond must be specified in the shareholder resolution approving the share capital increase. Under Bulgarian law, pre-emption rights may not be removed in any way, unless those pre-emption rights are automatically removed by operation of Bulgarian law, which occurs whenever shares are issued for the following purposes: (i) to be allotted to holders of interests in another company as part of a merger or a non-cash tender offer for the shares in that company; (ii) to be allotted to holders of convertible bonds or warrants due to the conversion of those instruments.

If the capital increase is authorized by a shareholder resolution, the pre-emption rights accrue to those persons registered as shareholders at the Central Depository on the ex-dividend date, i.e. 14 days following the date of the shareholders' resolution. If the capital increase is authorized by a resolution of the Board of Directors, the pre-emption rights accrue to those persons registered as shareholders at the Central Depository on the seventh day after the publication of the announcement of the rights issue pursuant to the terms and conditions of the Public Offering of Securities Act. On the business day following the ex-dividend date (or the seventh day after the announcement, as appropriate) the Central Depository opens rights accounts in the name of the relevant shareholders based on the register at the Central Depository at such date.

The first date on which pre-emption rights may either be: (1) exercised to subscribe for new shares or convertible bonds; or (2) traded on the BSE is required to be specified in the announcement of the rights issue. The final date for the exercise of pre-emption rights must be between fourteen and thirty days from the date set for the first exercise of such rights. All rights not exercised within this time must be offered to the public by means of an auction organized by the BSE five business days after the final date on which rights may be traded. This auction is open for a period of one day. Any right acquired pursuant to the auction could be exercised within ten business days of the auction.

2. Restrictions on Share Transfers (item 2, Appendix 11 to Ordinance 2 of FSC)

In general there are no limitations on the transfer of the shares and shareholders do not need the approval of the Company or of any other shareholder in order to do so.

3. Principal Shareholders (item 3, Appendix 11 to Ordinance 2 of FSC)

The following table sets out details, insofar as they are known to the Company, of the interests in shares held by persons who are directly or indirectly interested in five per cent or more of the Company's issued share capital at the date of this document.

At 31 December 2015

Shareholder	Number of shares Owned at 31.12.2015	% of Voting shares at 31.12.2015
America for Bulgaria Foundation ("ABF") as the receiver of the assets of the Bulgarian American Enterprise Fund ("BAEF" or the "Fund")	1,036,700	49.37
Frank Louis Bauer	165,509	7.88
Michael David Hunsberger	124,500	5.93

Save as disclosed in the table above, the Company is not aware of any person who is holding directly or indirectly 5% or more of the Company's registered share capital.

None of the Company's shareholders have different voting rights from any other holder of shares in respect of any shares held by them.

4. Controlling Shareholders (item 4, Appendix 11 to Ordinance 2 of FSC)

No shareholders of the Company exercise any special controlling rights.

By virtue of the Company's bylaws the general meeting of the shareholders has a quorum if at least 50% of the voting shares are presented. Pursuant to the provisions of the Company's bylaws certain decisions of the shareholders' meeting are taken with majority of $\frac{3}{4}$ of the shares represented at the general meeting. Unless otherwise provided by law or by the Company's bylaws the decisions of the general meeting are taken with a 50% majority of the shares represented at the general meeting. These provisions set forth higher majorities than those generally required in the Commercial Act.

5. Remuneration of the Members of the Board of Directors

In 2015 Directors received gross remuneration from ERG-3 in the amount of BGN 18,000 (excluding VAT) based on the decisions of the AGM. According to these decisions each member of the Board of Directors receives gross remuneration in the amount of BGN 500 per month. Save for these payments the Company has not made any other payments to its directors in whatever form.

6. Employees and Directors as Shareholders

Company's directors hold certain interest in the Company's shares, which is equal to 1.17% of its share capital at 31 December 2015. The single employee of the Company does not own any shares. Each director and employee votes his shares on his/her own and the Company is not aware of the existence of any control system imposing voting limitations. (item 5, Appendix 11 to Ordinance 2)

The Company is not aware of any shareholder agreement, restriction or limitation being imposed on directors or employees in voting their shares. Each shareholder exercises his/her voting right or may choose to authorize a third party of its own choice to vote by proxy. The Company is not aware of any directors' or employees' shares being blocked or restricted. The table below provides information on director's and their respective representatives' dealings with Company's shares in 2015:

Director	Shares owned on 31 December 2014	Net purchases (sales) of Company shares	Shares owned on 31 December 2015
Anna Boneva	7,500	-	7,500
Kostadin Petkov	17,000	-	17,000
Yordan Chompalov	-	-	-

Directors do not have any special rights or privileges to acquire securities issued by the Company.

7. Directors as owners of beneficial interest in other legal entities or as Directors

7.1. Yordan Compalov (as of the date of this report)

7.1.1. Does not participate in any trade company as a general partner with unlimited liability;

7.1.2. Owns more than 25% of the capital in the following companies:

- "DTT" OOD;

7.1.3. Does not serve as director in other companies.

7.2. Anna Boneva (as of the date of this report)

7.2.1. Does not participate in any trade company as a general partner with unlimited liability;

7.2.2. Owns more than 25% of the capital in the following company:

- "Fine Line" OOD;

7.2.3. Does not serve as director in other companies.

7.3. Kostadin Petkov (as of the date of this report)

7.3.1. Does not participate in any trade company as a general partner with unlimited liability;

7.3.2. Owns more than 25% of the capital of the following companies:

- MMTT Petkov Engineering EOOD;

7.3.3. Serves as director/member of board in the following companies:

- MMTT Petkov Engineering EOOD;

- Balkan Innovation Center EOOD;

- Foundation "Center for economic strategy and competitiveness";

- Association "Red hearts";

- Association "Basketball club Sofia".

8. Conflicts of interest

In 2015 none of the Directors has entered into any agreements with the Company outside of its scope of activity or on terms and conditions different from those prevailing on the market.

9. Voting Rights Restrictions (item 6, Appendix 11 to Ordinance 2 of FSC)

The Company is not aware of any restrictions or limitations on voting rights on any grounds. A limitation may arise by law regarding voting on certain deals with interested parties as stipulated in article 114 et sec. of POSA.

10. Restrictive Shareholder Agreements (item 7, Appendix 11 to Ordinance 2 of FSC)

The Company is not aware of any agreements between any of its shareholders that might lead to restrictions in transferring the Company's shares or in exercising voting rights.

11. Appointment of the Board of Directors and amendments and supplements of Bylaws (item 8, Appendix 11 to Ordinance 2 of FSC)

The by-laws of the Company provide for a one-tier management system consisting of a Board of Directors. Members of the Board of Directors may be either individuals or legal entities.

Board of Directors

Bulgarian law and the Company's bylaws provide that the Board of Directors must consist of at least three and not more than seven persons. The members of the Board of Directors may be appointed and dismissed by a resolution passed by a majority of $\frac{3}{4}$ of the shareholders in general meeting. Under Bulgarian law at least one third of the members of the Board of Directors should be independent (i.e. (i) not being an employee of the Company, (ii) not being a majority shareholder or a person related to the Company, (iii) not being in a long-term commercial relationship with the Company, (iv) not being a board member, procurator or employee of an entity under (ii) and (iii) or (v) being related to another member of board of the Company).

The Company's by-laws provide that a quorum of at least half of all Board members is necessary for a valid meeting and for passing of resolutions. Unless otherwise provided by law or by the Company's bylaws the decisions of the Board are taken with simple majority of Board members.

The Board has authorized the Executive Director to represent the Company and to take responsibility for its daily operations.

Board members may be re-elected without limitation and may be dismissed at any time by the Shareholders meeting. A board member may resign and require to be deregistered as a Board member in the commercial register with notice in writing addressed to the Company.

Amendments or supplements to the bylaws

The Company's by-laws provide that the shareholder resolution to amend or supplement the by-laws requires the approval of $\frac{3}{4}$ of the voting shares present at the meeting. The Financial Supervision Commission has the power to issue a "stop order" or a compulsory instruction or injunction to the Company if any resolution of the shareholders in general meeting or resolution of the Board of Directors is found to be illegal. The Financial Supervision Commission alone may make such an order if a resolution of the Board would be detrimental to the interests of shareholders or other investors.

Amendments and supplements to the by-laws of the Company are only effective at the date of the registration of the resolution at the Bulgarian commercial register.

12. Powers of the Board of Directors (item 9, Appendix 11 to Ordinance 2 of FSC)

The Board of Directors is responsible for securing the lawful and viable operation of the Company. It resolves on all issues that are not of the exclusive competence of the General meeting of the shareholders. The Board of Directors reports on its activities to the General Meeting of the Shareholders.

The most important resolutions of the Board of Directors are listed below:

- conclude, terminate and rescind agreements with the Depository Bank;
- control the execution and performance of the agreements with the Servicing Company/ies and with the Depository Bank;
- take decisions to invest the Company's free funds in accordance with the requirements and the restrictions set forth by the Law on Companies with Special Investment Purpose, the By-laws and the current legislation;
- take decisions to take bank credits and conclude loan agreements with banks:
 - (a) for acquisition or completion of real estate for securitization including loans which for the current year amount to more than 1/2 of the total assets of the Company according to the certified financial report, and
 - (b) in the amount of up to 20% of the book value of the total assets of the Company which loans shall be used for payment of interest and only if the term of the loan is not exceeding 12 months;
- take decisions for providing collateral to the loan agreements under the above item including the case when the amount of the collateral for the current year exceeds ½ of the total assets of the Company as per the certified financial report;
- take decisions to invest up to 10% of the registered capital of the Company in a servicing company;
- elect and dismiss an executive director/s;
- take decisions for issue of bonds under the terms and conditions of Art. 13, para. (3) and (4) of the by-laws.
- Based on proposals from the Servicing Company/ies decides on acquisitions and sales of real estate investments within the limitations of the Law and the By-laws.

The Board of Directors resolves on all issues that are not of the sole competence of the General Meeting.

Unlike the other public companies the companies with special investment purpose are not allowed by law to buy-back their own shares under the conditions of art.111, (5) of POSA.

13. Agreements Representing a Takeover Defense (item 10, Appendix 11 to Ordinance 2 of FSC)

The Company is not aware of any agreements that shall become in effect, supplemented or cancelled in the event of change in control or a takeover bid.

14. Agreements on Severance Packages in Case of Termination of Employment (item 11, Appendix 11 to Ordinance 2 of FSC)

The Company is not aware of any arrangements between the company and its directors or employees that may result in extra payments, bonuses or other compensation in case of termination of employment, dismissal or cancellation of employment without any legal grounds or due to a takeover bid.

ADDITIONAL INFORMATION (APPENDIX 10 TO ORDINANCE 2 OF FSC)

1. Main goods and services

ERG-3's main activity is managing and/or developing and leasing the properties it owns.

2. Revenue by type of activity, geography and main service providers

In 2015, there is no revenue from sales of investment properties.

During 2015 the total amount of expenses of the Company but net of impairment of investment is BGN 811 thousand, of which 70.8 % represent interest and expenses related to the bond issue maturing on 21 February 2018 and 5.7% represent expenses for the servicing company.

3. Large or important deals in 2015

Please refer to Acquisitions and disposals of real estate investments in 2015 and Lease agreements executed in 2015 above.

Except for the deals described in these paragraphs, during 2015 the Company has not executed other deals that are significant to its operations.

4. Deals or proposals for deals with related parties

There were no such new deals in 2015.

5. Unusual events with significant impact on the activities

In 2015 there were no unusual events that could have a material impact on the activity of the Company, its financials and results from operations safe for the ones disclosed in this document.

6. Off-balance sheet commitments

All off-balance sheet assets or liabilities are disclosed in the Notes 5, 8 and 9 to the financial statements.

7. Ownership of other legal entities

ERG-3 does not own shares or any other ownership interest in other companies.

8. Loans of the Company, extended guarantees or other assumed obligations

At 31 December 2015 ERG-3 has one listed bond issue with details provided in this report and in Note 9 to the Financial statements.

The Company is prohibited by law to and it has not extended any guarantees to any third party.

9. Loans by the Company

By law ERG-3 is not allowed to provide loans to any party and in 2015 the Company has not entered in such deals.

10. Use of funds from a new issue of securities

In 2015 the company did not issue any new securities.

11. Comparison of financial results with prior earnings forecasts

ERG-3 does not publish earnings forecasts.

12. Capital budgeting, liability management, threats and measures

ERG-3's policy in managing its financial resources is adequate and the Company has sufficient resources to service its obligations and to fund its activities. For details, please see above the sections on Liquidity and Capital Resources.

13. Planned investments and their funding

The information is in section 7. *Expected developments and plans for 2015* above.

14. Change in governance principles and in the economic group of the Company

There were no changes to ERG-3's governance principles.

Since January 2015, as a result of several transactions with ERG shares, the BAEF holds indirectly 49.37% of the share capital through ABF, related to BAEF entity (pursuant to the Supplementary provisions of the Public Offering of Securities Act) and does not hold direct ownership in ERG

15. Internal control and risk management

ERG-3 does not have a separate internal control unit, rather this function is exercised by the Board of Directors. The Company has an internal set of policies and rules for risk management, including its accounting policy, presented in the notes to the Financial Statements.

16. Changes of the Board of Directors

There were no changes of Directors in 2015.

17. Remuneration of the Board of Directors

In 2014 the members of the Board of Directors received gross remuneration from ERG-3 in the amount of BGN 18,000 (net of VAT). For more details, please see the section on Corporate Governance above.

18. Shares owned by Directors

The Company has a single class of shares and it has not issued any options. For more details on Director's ownership of shares, please see the section on Corporate Governance above.

19. Possible change in control

The Company is not aware of any negotiations or agreements that may result in change of ownership of its shares.

20. Court, administrative or arbitration procedures

The Company is not a party to any pending, court, administrative or arbitration proceedings, regarding receivables or obligations exceeding 10% of its shareholders' equity.

It is management's opinion that the resolution of these proceedings will not have a material effect on the Company's financial statements.

21. Investor relations officer

Svetozara Stoyanova-Tavityan
3 Shipka Str.
Sofia, 1504

T: +359 2 948 92 11

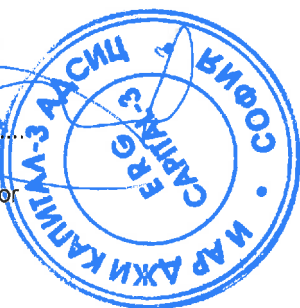
F: +359 2 943 36 90

E: ergcapital3@baefinvest.com

CHANGES IN THE PRICE OF THE SHARES

According to infostock.bg between 1 January 2015 and 31 December 2015, 74,225 shares of the Company were traded at BSE-Sofia for a total value of BGN 307 536 thousand at prices ranging between BGN 2.501 and 5.000 per share. The last deal at BSE-Sofia for 2015 was executed on 30 December 2015 for 10 shares at BGN 4.70 per share.

.....
Anna Boneva
Executive Director



**INDEPENDENT AUDITOR'S REPORT AND
ANNUAL FINANCIAL STATEMENTS
DECEMBER 31, 2015**

*This document is a translation of the original in Bulgarian text,
in case of divergence the Bulgarian text shall prevail*

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of ERG Capital - 3 ADSIP

Report on the financial statements

We have audited the accompanying financial statements of ERG Capital - 3 ADSIP (the "Company"), which comprise the statement of financial position as of December 31, 2015, and the statement of comprehensive income, statement of changes in shareholders' equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards (IFRS), as adopted by the European Union, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risk of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparations and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Делоит се отнася към едно или повече дружества - членове на Делоит Туш Томацу Лимитид, частно дружество с ограничена отговорност (private company limited by guarantee), регистрирано в Обединеното кралство, както и към мрежата от дружества - членове, всяко от които е юридически самостоятелно и независимо лице. За детайлна информация относно правната структура на Делоит Туш Томацу Лимитид и дружествата - членове, моля посетете www.deloitte.com/bg/za_nas.

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Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2015, and of its financial performance and its cash flows for the year then ended in accordance with IFRS, as adopted by the European Union.

Emphasis of matter

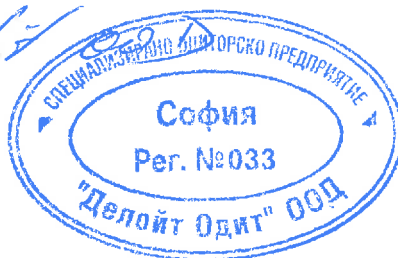
We draw attention to note 5 of the accompanying financial statements where based upon the result of the required annual appraisal, the fair value of the investment properties is disclosed. Due to the inherent uncertainty related to any valuation and especially in the current real estate market conditions, where the real estate market has deteriorated significantly, and very limited number of transactions have taken place, the disclosed fair values may differ significantly from the values that would have been used had an active market for the properties existed, and the differences could be material. Our opinion is not modified in respect to this matter.

Report on Other Legal and Regulatory Requirements - Annual separate report on the activities of the Company according to the Accountancy Act

Pursuant to the requirements of the Bulgarian Accountancy Act, we have read the accompanying Annual report on the activities of the Company. The Annual report on the activities of the Company, prepared by the Company's management, is not a part of the financial statements. The historical financial information presented in the Annual report on the activities of the Company, prepared by the management is consistent, in all material respects, with the annual financial information disclosed in the financial statements of the Company as of December 31, 2015, prepared in accordance with IFRS, as adopted by the European Union. Management is responsible for the preparation of the Annual report on the activities of the Company dated March 21, 2016.

Deloitte Audit

Deloitte Audit OOD



A. Dimov

Assen Dimov
Statutory Manager
Registered Auditor



March 21, 2016
Sofia



ERG CAPITAL – 3 ADSIP
STATEMENT OF COMPREHENSIVE INCOME
YEAR ENDED 31 DECEMBER 2015

BGN in thousands except per share amounts or unless otherwise stated

	Notes	2015	2014
Revenue			
Sale of investment property	5	-	13,034
Net book value of investment property	5	-	(15,294)
Sale expenses		-	(391)
		-	(2,651)
Rental income	3	-	682
Direct rental expenses and depreciation		-	(596)
			86
Other income	5	106	98
Interest income		2	8
Net revenue		108	(2,459)
Expenses			
Operating expenses	4	(237)	(481)
Interest expense	8, 9	(574)	(990)
Impairment loss on investment property	5	(1,873)	-
Total expenses		(2,684)	(1,471)
Loss for the year		(2,576)	(3,930)
Loss per share - basic and diluted	11	(1.23)	(1.87)

These financial statements have been approved by the Board of Directors on 21 March 2016.


 Anna Boneva
 Executive Director
 


 Penka Georgieva-Higgins
 Manager of PSG-98 EOOD
 Compiler of the financial report
 

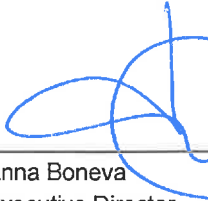
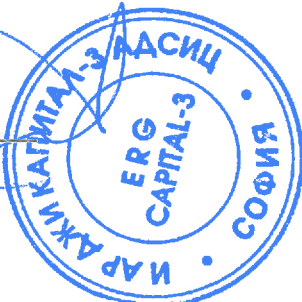

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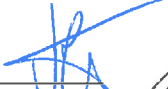

ERG CAPITAL - 3 ADSIP
STATEMENT OF FINANCIAL POSITION
31 DECEMBER 2015




BGN in thousands except per share amounts or unless otherwise stated

	Notes	2015	2014
ASSETS			
Cash and cash equivalents		943	1,087
Other assets	6	12	13
Investment property (net)	5	24,130	26,003
TOTAL ASSETS		25,085	27,103
LIABILITIES AND SHAREHOLDERS' EQUITY			
LIABILITIES			
Other liabilities	7	32	33
Interest payable on debt securities	9	2,291	1,698
Debt securities	9	5,580	5,614
Total liabilities		7,903	7,345
SHAREHOLDERS' EQUITY			
Share capital	10	2,100	2,100
Share premium		8,941	8,941
Reserve fund	10	18,937	18,937
Retained earnings		(12,796)	(10,220)
Total shareholders' equity		17,182	19,758
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		25,085	27,103

These financial statements have been approved by the Board of Directors on 21 March 2016.



 Anna Boneva
 Executive Director



 Penka Georgieva-Higgins
 Manager of PSG-98 EOOD
 Compiler of the financial report




 София
 Рег. №033
 "Делойт Оудит" ООД

2 The accompanying notes to financial statements are an integral part of these statements.

ERG CAPITAL - 3 ADSIP
 STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
 YEAR ENDED 31 DECEMBER 2015


BGN in thousands except per share amounts or unless otherwise stated


	Share capital	Share premium	Reserve fund	Retained earnings	Total
31 December 2013	2,100	8,941	18,937	(6,290)	23,688
Loss for the year	-	-	-	(3,930)	(3,930)
31 December 2014	2,100	8,941	18,937	(10,220)	19,758
Loss for the year	-	-	-	(2,576)	(2,576)
31 December 2015	2,100	8,941	18,937	(12,796)	17,182

These financial statements have been approved by the Board of Directors on 21 March 2016.


 Anna Boneva
 Executive Director




 Penka Georgieva-Higgins
 Manager of PSG-98 EOOD
 Compiler of the financial report




 21.03.2016

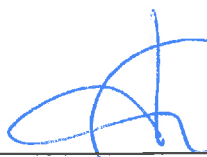



ERG CAPITAL - 3 ADSIP
STATEMENT OF CASH FLOW
YEAR ENDED 31 DECEMBER 2015

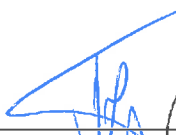
BGN in thousands except per share amounts or unless otherwise stated


	Notes	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES			
Loss for the year		(2,576)	(3,930)
Adjustments to reconcile loss for the year to net cash provided by operating activities			
Proceeds from sale of investment property, net of realized gain and sale expenses	5	-	15,294
Depreciation	5	-	353
Impairment loss on investment property	5	1,873	-
Decrease in other assets		1	302
(Decrease) increase in other liabilities		(1)	(982)
Net cash provided by operating activities		(703)	11,037
CASH FLOWS FROM FINANCING ACTIVITIES			
Repayment of borrowings, net of amortization of transaction cost	8	-	(11,986)
Repayment of debt securities, net of amortization of transaction cost	9	(34)	(916)
Increase in interest payable on debt securities		593	399
Net cash used in financing activities		559	(12,503)
Net (decrease) increase in cash and cash equivalents		(144)	(1,466)
Cash and cash equivalents at the beginning of the year		1,087	2,553
Cash and cash equivalents at the end of the year		973	1,087
Supplemental cash flow information:			
Interest and transaction cost paid		15	486

These financial statements have been approved by the Board of Directors on 21 March 2016.


Anna Boneva
Executive Director




Penka Georgieva-Higgins
Manager of PSG-98 EOOD
Compiler of the financial report




21.03.2016



4 The accompanying notes to financial statements are an integral part of these statements.

BGN in thousands except per share amounts or unless otherwise stated

1 Organization and operations

ERG Capital - 3 ADSIP ("the Company" or "ERG") was registered on 13 July 2006 as a Bulgarian joint stock company with special investment purpose with the sole purpose to invest the funds raised in real estate. As at 31 December 2015, America for Bulgaria Foundation ("ABF") as the receiver of the assets of the Bulgarian-American Enterprise Fund ("BAEF"), following the principles, policies and controls of BAEF owns directly 49.37% of the share capital of the Company. Under the Company's by-laws, ERG has a fixed term of existence that ends on 31 December 2020.

ERG activities and operations are governed by the provisions of the Special Investment Purpose Companies Act ("SIPCA"), the Public Offering of Securities Act ("POSA") and related secondary legislative acts. The Financial Supervision Commission is responsible for supervision of the Company's compliance with the laws and regulations. The SIPCA requires the Company's cash and securities to be held at a custodian bank, which is United Bulgarian Bank AD. In 2015 Bulgarian American Management Company EOOD ("BAMC") replaced Serdika Capital Advisors Permanent Establishment ("SCA") as the servicing company for ERG.

On 25 April 2007 the Company received its license to operate as a company with special investment purpose from the Financial Supervision Commission.

The Company's registered office is located at 3 Shipka Str., Sofia, Bulgaria.

2 Summary of significant accounting policies

Basis of Preparation

The Company prepares and presents its financial statements in accordance with International Financial Reporting Standards ("IFRS"), issued by the International Accounting Standards Board ("IASB") and the interpretations, issued by the International Financial Reporting Interpretations Committee ("IFRIC"), as approved by the European Union ("the EU") and applicable in the Republic of Bulgaria. IFRS, as adopted by the EU do not differ from IFRS, issued by the IASB, and are effective for reporting periods ended as of 31 December 2015, except for certain IFRS, amendments to IFRS and interpretations, which have not been adopted by the EU. The management believes that if those have been approved by the EU it would have no influence on these financial statements.

During 2015 the Company has adopted all new and revised IFRS by IASB, as approved by the EU, effective for 2015, which refer to the Company's business. The adoption of these amendments and interpretations has not resulted in changes in the accounting policies of the Company.

Certain IFRS, amendments to IFRS and interpretations have been adopted by IASB and IFRIC as of the date of the financial statements, but are effective for annual periods beginning on or after 1 January 2015. The Company has not elected earlier application of those IFRS and IFRS revisions.

These financial statements have been prepared on the historical cost basis. The preparation of financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge of current events and actions, actual results may differ from those estimates.

The statement of financial position presents assets and liabilities in decreasing order of liquidity and does not distinguish between current and non-current items. These financial statements are prepared for general purposes and provide information for the financial position, operations and cash flows of the Company for the year ended 31 December 2015.

BGN in thousands except per share amounts or unless otherwise stated

Functional and reporting currency

The functional currency of the Company is the national currency of Bulgaria - BGN. The financial statements are presented in BGN.

Foreign currency

Foreign currency transactions, i.e. transactions denominated in currencies other than BGN, the Company's functional currency, are accounted for at the exchange rates prevailing at the date of the transactions. Gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies are recognized in the statement of comprehensive income.

Cash and cash equivalents

For the purposes of the financial statements, the Company considers all highly liquid financial instruments and other financial instruments with maturity of three months or less to be cash equivalents.

Investment property

Investment property is property (land or a building-or part of a building-or both) held to be leased under long term operating leases or for capital appreciation or both in accordance with the Improvements to IFRS issued in May 2008 and effective 1 January 2009. An investment property is measured initially at its cost. Cost comprises its purchase price and any directly attributable expenditures, including taxes and fees directly related to the purchase and other transaction costs. For all new investments started after 1 January 2009 borrowing costs that are directly attributable to the acquisition, construction and development are capitalised as part of the cost of the investment property, in accordance with the amendments to IAS 23 "Borrowing costs". Construction cost is recorded based upon stages of completion. Development cost is recorded at the time the services are performed. After the initial recognition the investment property is accounted for in accordance with the cost model - cost less accumulated depreciation and accumulated impairment losses as determined by management. The SIPCA requires that ERG's investment property is appraised at the end of each fiscal year. Depreciation of the buildings starts when they are available for use and is based on the straight-line method over their estimated useful lives of 25 years.

Borrowings

Borrowings are recognized initially at fair value net of transaction costs incurred. Borrowings are subsequently stated at amortized cost and any difference between net proceeds and the redemption value is recognized in the statement of comprehensive income over the period of the borrowings using the effective interest method.

Rental income recognition

Rents from operating leases are recorded as rental income as they become due in accordance with the lease contracts.

Interest income and expense recognition

Interest income and expense are recognised in the statement of comprehensive income for all interest bearing instruments using the effective interest method. Interest income includes interest on bank deposits. Interest expense includes interest and transaction costs on borrowings, debt securities and payables.

Tax status and dividend requirement

The Company was formed under the SIPCA and is exempt from Bulgarian corporate income taxes as long as it distributes to shareholders 90% of its profit for the year or 90% of its retained earnings if retained earnings is less than

BGN in thousands except per share amounts or unless otherwise stated

the profit for the year. Considering the SIPCA requirement, the Company accrues the required dividend as of the end of each fiscal year and recognizes this dividend as a liability at the statement of financial position date, meeting the criteria of a present obligation as defined in IAS 37.

3 Rental income

The Zagora property contained two commercial buildings.

The larger of the two buildings was leased to two related companies, AIKO Multi Concept EOOD and Mobbo EOOD under an operating lease contract. In July 2014 the building together with part of the land was sold and the lease contract was terminated without any payments for the parties.

The second building, together with the remaining part of the land was sold in August 2014.

4 Operating expenses

	<u>2015</u>	<u>2014</u>
Professional fees	208	450
Board of Directors fees	18	17
General and administrative expenses	11	14
Total	<u>237</u>	<u>481</u>

Professional fees for 2015 and 2014 include asset management and servicing fee to SCA of BGN 30 and BGN 300, respectively (Note 12).

5 Investment property (net)

At 31 December 2015 and 2014 the Company owned respectively three and four properties.

- "Yavor property" at 31 December 2015 (2014) represents a 14,724 sq.m. (the cadastre measured area) land plot and buildings, located in Varna – 2, Oreh Str. In February 2012 the property was pledged in favor of TB Victoria EAD (previously Credit Agricole Bulgaria EAD and Emporiki Bank Bulgaria EAD) as trustee bank to secure holders of the Second bond issue. In October 2014 the pledge was released (Note 9). During 2015 and 2014 the Company generated immaterial amount of rental income of BGN 106 and BGN 98, respectively from Varna property under a short term operating lease contract that was renewed until 30 September 2016.

- "Sofia Ring property" at 31 December 2015 (2014) represents a 131,284 sq.m. (the cadastre measured area) land plot located in Sofia, at the Ring road and Botevgradsko shose junction. In February 2012 the property was pledged in favor of TB Victoria EAD (previously Credit Agricole Bulgaria EAD and Emporiki Bank – Bulgaria EAD) as trustee bank to secure holders of the Second bond issue. In November 2014 the pledge was transferred to Allianz Bank Bulgaria AD as a new trustee bank to secure holders of the Second bond issue (Note 9).

- "Bourgas retail property" at 31 December 2015 (2014) represents a 24,959 sq.m. (the cadastre measured area) land plot, located in Bourgas between Todor Alexandrov blvd. and the Bourgas port. In February 2012 the property was pledged in favor of TB Victoria EAD (previously Credit Agricole Bulgaria EAD and Emporiki Bank – Bulgaria EAD) as trustee bank to secure holders of the Second bond issue. In October 2014 the pledge was released (Note 9).

- "Zagora property" at 31 December 2013 represented a 22,768 sq.m. (the cadastre measured area) land plot with two commercial buildings located in Stara Zagora - 50 Patriarh Evtimii blvd. The buildings were fully leased until August 2013 as discussed in Note 3. The property was pledged in favor of Raiffeisenbank Bulgaria under a loan agreement (Note 8). In July and August 2014 the Zagora property was sold in two transactions and the pledge was released.

ERG CAPITAL - 3 ADSIP
 NOTES TO THE FINANCIAL STATEMENTS
 31 DECEMBER 2015

BGN in thousands except per share amounts or unless otherwise stated

	Investment property under development	Investment property generating rental income		Total
	Land & Buildings	Land	Buildings	Land & Buildings
<i>Cost</i>				
31 December 2013	27,424	3,856	17,838	49,118
Disposals	-	(3,856)	(17,838)	(21,694)
31 December 2014	27,424	-	-	27,424
Disposals	-	-	-	-
31 December 2015	27,424	-	-	27,424
<i>Accumulated depreciation and impairment loss</i>				
31 December 2013	1,421	551	5,496	7,468
Depreciation for 2014	-	-	353	353
Disposals	-	(551)	(5,849)	(6,400)
31 December 2014	1,421	-	-	1,421
Impairment loss for 2015	1,873	-	-	1,873
31 December 2015	3,294	-	-	3,294
<i>Net book value</i>				
31 December 2015	24,130	-	-	24,130
31 December 2014	26,003	-	-	26,003
31 December 2013	26,003	3,305	12,342	41,650

In 2015, management devalued two of its investment properties to their recoverable amount by recognizing an impairment loss in the statement of comprehensive income.

Based upon the result of the required annual appraisal (prepared by an independent appraiser with recognized and relevant professional qualification), the fair value of the investment property at 31 December 2015 and 2014 was BGN 24,294 and BGN 26,672, respectively. The investment property is classified within Level 3 of the fair value hierarchy and has been determined based on combination of generally accepted valuation methods. In estimating the fair value of the investment property, the highest and best use of the property is its current use. There has been no change to the valuation technique during the year.

6 Other assets

	2015	2014
Prepaid expenses	6	6
Other	6	7
Total	12	13

BGN in thousands except per share amounts or unless otherwise stated

7 Other liabilities

	<u>2015</u>	<u>2014</u>
Guarantee deposit	24	24
Other	8	9
Total	<u><u>32</u></u>	<u><u>33</u></u>

8 Borrowings

Raiffeisenbank Bulgaria

On 29 May 2008 (and as subsequently amended) the Company and Raiffeisenbank Bulgaria executed a floating rate (3 month EURIBOR + 2.5%, decreased to 3 month EURIBOR + 2% starting 21 August 2009) loan agreement whereby the Company can borrow up to EUR 9.5 million (inclusive of capitalized interest) to finance the development of the Zagora property. The Company pledged the Zagora property with all future improvements and related future rental income, as well as certain bank accounts. The loan had a final maturity of 25 November 2014 and was fully repaid in July 2014, with the proceeds from the sale of part of Zagora property.

9 Debt securities

Second bond issue

In February 2012, the Company issued fixed rate (10.5%) secured bonds in the amount of EUR 6.8 million with a term of 36 months. In November 2014 the term of the Second bond issue was extended with 36 months, effective February 2015. Both coupon and principal are due at maturity. In case the Company decides to make early repayments, the Company should pay the accrued interest on the repaid principal. This bond issue is secured with mortgages on Sofia Ring property, Yavor property (mortgage on Yavor property was released in October 2014), Bourgas retail property (mortgage on Bourgas retail property was released in October 2014) and a pledge on a bank account to be credited with the proceeds of the future sale of the pledged properties. In October 2014 TB Victoria EAD (previously Credit Agricole Bulgaria EAD and Emporiki Bank – Bulgaria EAD) was replaced by Allianz Bank Bulgaria AD as the trustee bank under this bond issue. The Second bond issue is listed on the BSE for secondary trading and trades under BSE code 5ERB. In August 2014, with part of the proceeds from the sale of Zagora property, the Company partially repaid this bond issue. The outstanding principal balance, net of deferred transaction cost incurred, at 31 December 2015 and 2014 was EUR 2.85 million (BGN 5,580) and EUR 2.87 million (BGN 5,614), respectively and the interest payable was EUR 1.17 million (BGN 2,291) and EUR 0.87 million (BGN 1,698), respectively (Note 12).

The fair value of this bond issue approximates its carrying amount and is classified within Level 3 of the fair value hierarchy. The fair value has been determined in accordance with generally accepted pricing models based on a discounted cash flows analysis, with the most significant input being the discount rate that reflects the credit risk of counterparties.

10 Share capital

After receiving a license for special investment purpose company ERG was required to increase its outstanding shares by at least 30% through a public offering. On 25 April 2007 the Company received its license and subsequently completed a 50% capital increase within the prescribed period.

The capital of the Company is BGN 2,100 distributed in 2,100,000 common shares with a face value of BGN 1 per share, each with equal voting rights.

The Company's by-laws were amended at the December 2014 General Meeting of shareholders to confirm that the Company should maintain its Reserve fund in the minimum amount of BGN 18,900 (accumulated from the reduction of the face value of the common shares of the Company in 2012), but not less than 1/10 of the capital of the Company.

BGN in thousands except per share amounts or unless otherwise stated

Since January 2015, as a result of several transactions with ERG shares, the Bulgarian-American Enterprise Fund ("BAEF" or the "Fund") holds indirectly 49.37% of the share capital through ABF, related to BAEF entity (pursuant to the Supplementary provisions of the Public Offering of Securities Act) and does not hold direct ownership in ERG. Following BAEF's Board of Directors decision from September 30, 2015 BAEF was dissolved without being liquidated. ABF as receiver of BAEF's assets, following the principles, policies and controls of BAEF owns directly 49.37% of the share capital of the Company. Majority of ABF Directors are former directors of BAEF.

The owners of BAEF, as set forth in BAEF Certificate of Incorporation, are its Members, who do not own any personal stake in the equity of BAEF, but they manage the assets of the Fund acting as fiduciaries for the ultimate beneficiaries of the BAEF's charitable activities. The Members of BAEF are the Directors of BAEF who established the ABF to receive the assets of the Fund, subject to the Fund's principles, policies and controls. The Directors of BAEF are also Directors of ABF.

The remaining shares are owned by other companies and individuals.

The Company's shares are traded on the Bulgarian Stock Exchange under BSE code 5ER.

11 Earnings per share

Earnings per share is computed by dividing profit or loss for the year available to common shareholders by the weighted average number of common shares outstanding for the period. The Company does not have any diluted shares thus basic and diluted earnings per share are equal. The weighted average number of common shares used in the calculations for 2015 and 2014 is 2,100,000.

12 Related party transactions

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions or if it is under common control. The Company has entered into transactions with related parties in the normal course of business.

The balances due to/from related companies and the related expense and income at 31 December 2015 and 2014, respectively were as follows:

<u>Related company</u>	<u>2015</u>	<u>2014</u>
Debt securities - ABF	5,580	-
Interest payable on debt securities - ABF	2,291	-
Interest expense - ABF	574	-
Asset management and servicing fee to SCA	30	300
Amortization of brokerage fee paid to SCA in 2009	-	186
Board of Directors fees to Sredetz Enterprise EOOD*	-	6
Board of Directors fees to Bulgarian American Property Management EOOD*	-	5

*The company was member of the Board of Directors of ERG until 12 December 2014.

13 Financial Risk Factors

The Company's activities expose it to a variety of financial risks: credit risk, interest rate risk, liquidity risk and market risk (including currency and price risk).

BGN in thousands except per share amounts or unless otherwise stated

Credit risk

The Company is exposed to credit risk in its investment activities. Credit risk is the risk that counterparty will be unable to pay amounts in full when they become due. ERG limits the credit risk by ensuring that rental contracts are made with customers with an appropriate credit history and also by having in place bank guarantees and/or company guarantees from the lessees' parent companies for prompt and accurate performance of the obligations under the rental contracts.

Interest rate risk

The interest rate risk relates to the potentially adverse impact of interest rate fluctuations to the Company's profit for the year and equity value. It is the Company's policy to reduce the interest rate risk on floating rate loans through the use of interest rate swaps if necessary. This reduces to a large extent the overall interest rate risk.

Liquidity Risk

The liquidity risk refers to the risk that the Company might not have sufficient cash to meet its obligations and arises from mismatch in cash flows. For the Company, the primary liquidity risk relates to its dependence on the payments of rents and property sales in order to service the borrowings. The Company aims to maintain positive balance between the incoming and outgoing cash flows on its rents and borrowings, while its ability to make large one-time outflows depends on its ability to sell properties and/or refinance maturing borrowings, which in the current market might not be possible.

Market risk

Currency Risk

The Company is exposed to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. Rent receivables, borrowings, debt securities and a significant amount of interest and operating expenses are denominated in EUR. The Company does not maintain positions in currency other than EUR and BGN. The BGN/EUR exchange rate of BGN 1.95583 for EUR 1 is fixed under a Currency Board arrangement.

Price risk

The Company is exposed to property price and market rental risks. This risk has increased as a result of the global financial crisis that limited the credit availability worldwide and affected negatively the real estate prices and the rental rates. The crisis affected Bulgaria and the local real estate market in the second half of 2008 and is expected to continue in 2015 although it is not expected for the prices and rental rates to decrease further. It is the Company's policy to reduce this risk by only investing in high quality properties and leasing them to good quality tenants with favourable terms and guarantee.