



Bulgarian Real Estate Fund ADSIC

ANNUAL FINANCIAL STATEMENTS

31 December 2018



BULGARIAN REAL ESTATE FUND ADSIC

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BULGARIAN REAL ESTATE FUND ADSIC

General information

Board of Directors

Todor Breshkov, Chairman of the Board of Directors

Chavdar Donkov, Member of the Board of Directors

Nikolay Skarlatov, Executive Director

Audit Committee

Nikolay Sergeevich Dragomiretski

Irena Yordanova Daskalova

Atanas Kirilov Traychev

Registered office

3A Nikolay Haytov Str., fl. 1

1113 Sofia

Bulgaria

Depository bank

DSK Bank AD

Brokers

Settle Real Estate OOD

Management Company

Real Estate Management (MNI) OOD

Bulstat Registration number

131350366

Auditor

AFA OOD

1504 Sofia

38 Oborishte str.

INDEPENDENT AUDITOR'S REPORT

TO
THE SHAREHOLDERS
OF
BULGARIAN REAL ESTATE FUND ADSIC

Opinion

We have audited the accompanying financial statements of Bulgarian Real Estate Fund ADSIC (the Company, the Fund), which comprise the statement of financial position as at 31 December 2018, and the income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2018, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union (EU).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements of the Independent Financial Audit Act (IFAA) that are relevant to our audit of the financial statements in Bulgaria, and we have fulfilled our other ethical responsibilities in accordance with the requirements of the IFAA and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.



Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For the matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the Auditor's responsibilities for the audit of the financial statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial statements.

Key audit matter	How our audit addressed the key audit matter
<p><i>Valuation of investment properties, incl. investment properties held for sale.</i></p> <p>The Fund's disclosures with respect to the valuation of investment properties, incl. investment properties held for sale, are presented in (j), (l), (m), 3, 6 and 18 to the financial statements.</p> <p>The investment properties (incl. investment properties held for sale) of Bulgarian Real Estate Fund ADSIC comprise office and commercial properties, agricultural and non-agricultural land, vacation properties and properties under construction. Their carrying amount is determined based on an estimation of the fair value of each property in the Fund's portfolio and amounts to BGN 86,674 thousand as at 31 December 2018. The net gain on changes in the fair values of investment properties recognised in the profit for the year is of BGN 2,538 thousand.</p> <p>The fair valuation of investment properties is a complex process of estimates calculation using many assumptions and specific valuation methods, techniques and models. Therefore, this fair valuation is inherently uncertain, as it involves the use of various forecasts and assumptions of high degree of subjectivity, incl. of both observable and unobservable input data.</p>	<p><i>In this area, our audit procedures included, among others:</i></p> <ul style="list-style-type: none">• Obtaining understanding of the process of valuation of investment property (including investment property held for sale) and of the controls over monitoring and acceptance of the valuation reports issued by independent licensed appraiser. Process walk-through;• Examination of the policies and procedures which the management applies with respect to regular fair value measurement of investment property and investment property held for sale;• Evaluation the adequacy and consistent application of the policy and procedures adopted by the Company with respect to fair value measurement;• Evaluation of the independence, expertise, capacity and objectivity of the external appraiser appointed by the Fund. In addition, discussion of the scope of the appraiser's work with the management and review of the conditions for his/her appointment.

The Fund's policy is to engage an external licensed valuation appraiser, for the purpose of determination of the fair values of properties from all categories. Such an expert is appointed each year.

Due to the significance of investment properties' amount in the Fund's financial statements (73% of the total assets), including for reported financial results and mandatory dividend calculation, as well as the application of number of judgements and assumptions of higher degree of subjectivity and the inherent uncertainty of fair value estimation related to that, this is considered a key audit matter.

- Involvement of our internal valuation expert to assist us in assessing key judgements, the valuation methods, techniques and models applied, the inputs and significant assumptions used (such as discount rates, risk of vacancy, rental rates, development period, rate of capitalisation, offer selling prices, adjustment of indicators, etc.).
- Comparison, with the assistance of our internal valuation expert, of the key input data with publicly available market data and the Fund-specific historical information on property deals and other facts and circumstances in order to analyse and assess their relevance.
- Testing selected input data on which the valuation of certain investment properties is based, including forecast rental income, occupancy rates, capital expenditure, including review and inspection of appropriate supporting documentation.
- Evaluation the relevance and adequacy of the Fund's disclosures related to the fair valuation of the investment properties.

Other matter

We have audited the statutory financial statements of the Company for the year ended 31 December 2018, prepared in accordance with International Financial Reporting Standards as adopted by the European Union and presented in BGN and have expressed an unmodified opinion on those financial statements on 29 March 2019.

Information Other than the Financial Statements and Auditor's Report Thereon

Management is responsible for the other information. The other information, which we have obtained prior the date of our auditor's report, comprises the management report, including the corporate governance statement prepared by management in accordance with Chapter Seven of the Accountancy Act, but does not include the financial statements and our auditor's report thereon. The Company's



management report, including the corporate governance statement accompanies the statutory financial statements of the Company for the year ended 31 December 2018.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon, unless and to the extent explicitly specified in our report.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and true and fair presentation of the financial statements in accordance with IFRS, as adopted by the EU, 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.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.




- Obtain an understanding of internal control relevant to the audit 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.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves true and fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.


AFA OOD
Audit Firm


Valia Iordanova Iordanova
Legal Representative
Registered Auditor in Charge of the Audit

29 March 2019
38, Oborishte Street
1504-Sofia, Bulgaria



Bulgarian Real Estate Fund ADSIC

ANNUAL FINANCIAL STATEMENTS

31 December 2018

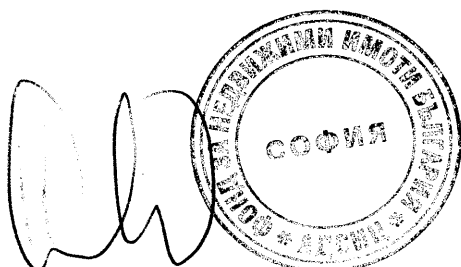
**BULGARIAN REAL ESTATE FUND ADSIC
INCOME STATEMENT**

For the year ended 31 December 2018

	Notes	2018 <i>EUR thousand</i>	2017 <i>EUR thousand</i>
Income			
Revenue	5.1	3,455	3,158
Net gains from fair value adjustments to investment properties	6.1, 6.2	1,298	1,079
Income from sale of investment property		42	3,375
Interest income		-	1
Other income	5.3	9	58
Total income		4,804	7,671
Expenses			
Direct operating expenses arising from properties	5.4	(599)	(672)
Management fees	14.1	(572)	(551)
Interest expenses		(160)	(180)
Directors' remunerations and Board expenses	14.2	(58)	(59)
Carrying amount of sold investment property	6.2	(42)	(3,374)
Employee benefit costs		(30)	(29)
Other expenses	5.5	(62)	(64)
Total expenses		(1,523)	(4,929)
Profit for the year		3,281	2,742
Basic earnings per share	15	0.147	0.136
Diluted earnings per share	15	0.147	0.136
Dividend per share, gross	12	0.079	0.017

AUDITED BY AEA
29/03/2019

Executive Director:
Nikolay Skarlatov



Preparer:
Alexander Georgiev

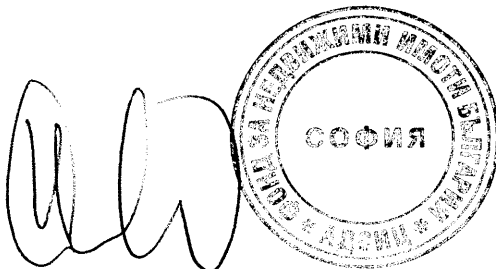
These financial statements were authorised for issue by the Board of Directors on 28 March 2019. The accompanying notes to the financial statements on pages 6 to 48 form an integral part of these financial statements.

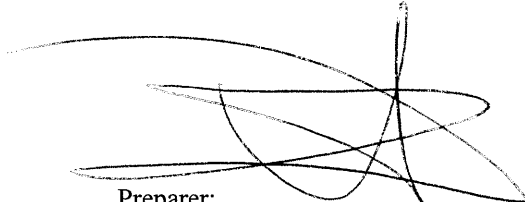
BULGARIAN REAL ESTATE FUND ADSIC
STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31 December 2018

	<u>2018</u>	<u>2017</u>
	<i>EUR thousand</i>	<i>EUR thousand</i>
Profit for the year	<u><u>3,281</u></u>	<u><u>2,742</u></u>
Other comprehensive income for the year	<u>-</u>	<u>-</u>
Total comprehensive income for the year	<u><u>3,281</u></u>	<u><u>2,742</u></u>


AUDITED BY AEA
29/03/2019

Executive Director:
Nikolay Skarlatov



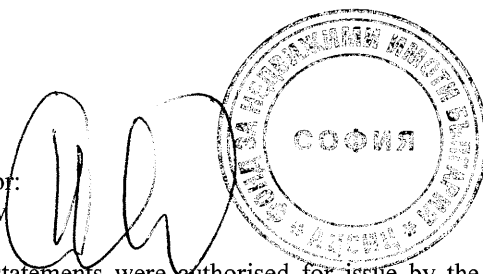

Preparer:
Alexander Georgiev

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BULGARIAN REAL ESTATE FUND ADSIC
STATEMENT OF FINANCIAL POSITION
As at 31 December 2018

	<u>Notes</u>	<u>2018</u> <i>EUR</i> <i>thousand</i>	<u>2017</u> <i>EUR</i> <i>thousand</i>
ASSETS			
Non-current assets			
Investment property	6.1	43,589	41,830
Equipment		3	5
Intangible assets		2	3
		<u>43,594</u>	<u>41,838</u>
Current assets			
Trade and other receivables	8	236	83
Deferred expenses	7	31	10
Cash and cash equivalents	9	15,822	1,744
		<u>16,089</u>	<u>1,837</u>
Investment property held for sale	6.2	726	782
TOTAL ASSETS		<u>60,409</u>	<u>44,457</u>
Equity			
Share capital	10.1	17,712	30,907
Share premium	10.2	30,361	3,245
Retained earnings		5,499	3,983
Total equity		<u>53,572</u>	<u>38,135</u>
Non-current liabilities			
Long-term interest bearing loans	11	4,012	4,608
		<u>4,012</u>	<u>4,608</u>
Current liabilities			
Current portion of long-term interest bearing loans	11	600	583
Trade and other payables	13	460	780
Provision for dividends due	12	1,765	351
		<u>2,825</u>	<u>1,714</u>
Total liabilities		<u>6,837</u>	<u>6,322</u>
TOTAL EQUITY AND LIABILITIES		<u>60,409</u>	<u>44,457</u>

Executive Director:
Nikolay Skarlatov



Preparer:
Alexander Georgiev

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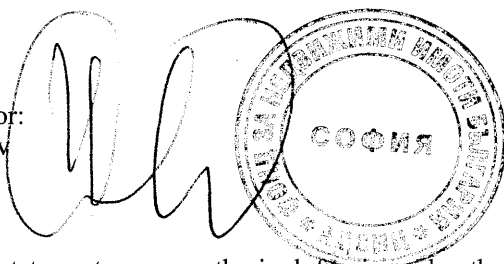
AUDITED BY AEA
29/03/2019

BULGARIAN REAL ESTATE FUND ADSIC
STATEMENT OF CHANGES IN EQUITY
For the year ended 31 December 2018

	Share capital (Note 10.1)	Share premium (Note 10.2)	Retained Earnings	Total
	<i>EUR thousand</i>	<i>EUR thousand</i>	<i>EUR thousand</i>	<i>EUR thousand</i>
At 1 January 2017	30,907	3,245	1,592	35,744
Profit for the year	-	-	2,742	2,742
Other comprehensive income	-	-	-	-
Total comprehensive income	-	-	2,742	2,742
Distributed dividends (Note 12)	-	-	(351)	(351)
At 31 December 2017	30,907	3,245	3,983	38,135
Profit for the year	-	-	3,281	3,281
Other comprehensive income	-	-	-	-
Total comprehensive income	-	-	3,281	3,281
Decrease in nominal value of shares	(20,605)	20,605	-	-
Issuance of shares	7,410	6,669	-	14,079
Transaction costs related to issuance of shares	-	(158)	-	(158)
Distributed dividends (Note 12)	-	-	(1,765)	(1,765)
At 31 December 2018	17,712	30,361	5,499	53,572


AUDITED BY AEA
29/03/2019

Executive Director:
Nikolay Skarlatov



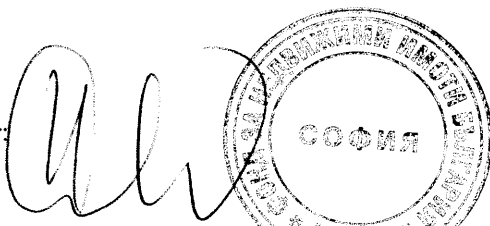
Preparer:
Alexander Georgiev

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BULGARIAN REAL ESTATE FUND ADSIC
STATEMENT OF CASH FLOWS
For the year ended 31 December 2018

	Notes	2018 <i>EUR</i> <i>thousand</i>	2017 <i>EUR</i> <i>thousand</i>
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit for the year		3,281	2,742
Adjustments to reconcile profit for the year to net cash flows			
Non-cash:			
Net gains from fair value adjustments to properties	6.1, 6.2	(1,298)	(1,079)
Interest income		-	(1)
Interest expense		160	180
(Gain)/ Loss from sale of investment properties		-	(1)
Depreciation expense	5.5	5	2
Payables written off	5.3	-	(41)
Write off of receivables	5.5	-	1
Working capital adjustments:			
Increase in trade and other receivables		(174)	(20)
Decrease in trade and other payables		(321)	(5)
Net cash flows from operating activities		1,653	1,778
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of properties and initial direct costs related to operating leases		(448)	(5,762)
Deposits with original maturity over 3 months		-	360
Purchase of equipment and intangible assets		-	(8)
Proceeds from sale of investment properties		42	2,675
Interest received		-	7
Net cash flows used in investing activities		(406)	(2,728)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from increase in share capital		14,079	-
Transaction costs related to the increase in share capital		(158)	-
Repayment of borrowings		(580)	(422)
Proceeds from loans received		-	511
Interest paid		(159)	(178)
Dividends paid		(351)	(760)
Net cash flows from/ (used in) financing activities		12,831	(849)
Net increase/(decrease) in cash and cash equivalents		14,078	(1,799)
Cash and cash equivalents at 1 January		1,744	3,543
Cash and cash equivalents at 31 December	9	15,822	1,744

Executive Director:
Nikolay Skarlatov



Preparer:
Alexander Georgiev

These financial statements were authorised for issue by the Board of Directors on 28 March 2019. The accompanying notes to the financial statements on pages 6 to 48 from an integral part of these financial statements.

BULGARIAN REAL ESTATE FUND ADSIC
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2018

1. Corporate Information

Bulgarian Real Estate Fund (BREF or the Fund) was incorporated on 11 December 2004 under the Act on Special Investment Purpose Companies (ASIPC). The duration of the Fund expires in 2029. This term can be extended by shareholders' decision.

BREF is a Real Estate Investment Trust (REIT) investing in diversified portfolio of office, retail, industrial, residential and agricultural real estate on the territory of Bulgaria. The Fund is registered under Unified Identification Code 131350366 with registered office at 3A Nikolay Haytov Str., fl 1, Sofia and its financial year ends being 31 December. The Fund owns License № 6 / 08.12.2005 issued by the Financial Supervision Commission.

The authorized capital of the Fund is comprised of ordinary shares. The shares are listed on the Bulgarian Stock Exchange – Sofia (BSE).

The investment objective of BREF is to achieve capital appreciation by investing in high-quality retail, office, industrial and multi-family residential properties, as well as agricultural lands, at all stages of development.

The Fund has two employees - one individual who deals with investors' relations and an office administrator. The Fund's Board consists of three directors. The Fund's operations are managed by a management fund, a related party, in accordance with the requirements of ASIPC and management agreement as disclosed in Note 14 below.

The Management of the Fund is represented by its Board of Directors. Those charged with governance are represented by Audit Committee.

These financial statements for the year ended 31 December 2018 were authorized for issue in accordance with a resolution of the Board of Directors on 28 March 2019.

2.1. Basis of preparation

The financial statements have been prepared on a historical cost basis, except for investment properties (including investment properties held for sale) that have been measured at fair value.

Based on an assessment of the Fund's ability to continue as a going concern, the management have not identified any indications, facts, circumstances which make the going concern assumption not appropriate or give rise to any material going concern uncertainties to be disclosed in these financial statements. As such the financial statements have been prepared on a going concern basis.

The financial statements are presented in Euro (EUR or €) and all values are rounded to the nearest thousand (EUR thousand) except when otherwise indicated.

The Fund presents comparative information in these financial statements for one comparative year. When is deemed necessary the comparative figures are reclassified (and restated), to provide comparability to the figures presented in the current year.

The initial application of IFRS 9 Financial Instruments and IFRS 15 Revenue from Contracts with Customers is following the modified retrospective approach. This led to changes in the accounting policies but did not resulted in corrections of the opening balance of retained earnings as at 1 January 2018, or of the other related amounts in the financial statements. The comparative information for 2017 was not restated. The new accounting policies are presented in Notes 2.2 b), Note 2.2. g) and Note 3.

BULGARIAN REAL ESTATE FUND ADSIC
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2018

2.1. Basis of preparation (continued)

Statement of compliance

The financial statements of Bulgarian Real Estate Fund have been prepared in accordance with the all International Financial Reporting Standards (IFRS), which comprise of International Accounting Standards, the interpretations, issued by the International Financial Reporting Interpretations Committee (IFRIC), approved by the International Accounting Standards Board (IASB), SIC interpretations, issued by the Standard Interpretations Committee, which were effective on 1 January 2018 and which were adopted by the European Commission. IFRS, as adopted by EU, is the commonly accepted naming of the generally accepted accounting framework, which is essentially the defined national basis of accounting "IAS, as adopted by the EU", specified in the Bulgarian Accountancy Act and defined in paragraph 8 of its Additional provisions. For the current financial year, the Fund applied all new or revised standards and interpretations, issued by the IASB and respectively from Standard Interpretations Committee, which were relevant for its activity.

These financial statements have been prepared for the use of shareholders and foreign investors.

BREF has presented a separate set of statutory financial statements in Bulgarian, expressed in Bulgarian leva, in accordance with IFRS, as adopted for use in the EU. Reporting framework "IFRS as adopted by the EU" is essentially the defined national basis of accounting "IAS, as adopted by the EU", specified in the Bulgarian Accountancy Act and defined in paragraph 8 of its Additional provisions. The statutory financial statements were authorized for issue by the Board of Directors on 28 March 2019.

2.2. Summary of the significant accounting policies

a) Foreign currency translation

The financial statements are presented in Euros while the functional currency of the Fund is Bulgarian Lev (BGN). The Fund uses the Euro as a presentation currency due to the wide range of users of the financial statements.

As at the reporting date, the assets, liabilities, equity, revenue and expenses of the Fund are translated into the presentation currency at the fixed rate of BGN/EUR of 1.95583 or EUR/BGN of 0.51129 quoted by the Bulgarian National Bank. BGN is pegged to the EUR at the exchange rate of 1.95583 as from 1 January 2002 and therefore no translation difference arises.

Transactions in foreign currencies are initially recorded in the functional currency rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated on a monthly basis by applying the exchange rate published by the Bulgarian National Bank for the last working day of the respective month. All differences are taken to the income statement. Nonmonetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the dates of initial transactions.

b) Revenue from contracts with customers

The Fund is in the business of investing in diversified portfolio of office, retail, industrial, residential and agricultural real estate on the territory of Bulgaria. Revenue from contracts with customers is recognised when control of the goods or services are transferred to the customer at an amount that reflects the consideration to which the Fund expects to be entitled in exchange for those goods or services. The Fund has generally concluded that it is the principal in its revenue arrangements, except for those related to provision of electricity, water and heating to its tenants, as well as these related to re-invoicing of improvements of leased areas, at the expense of the tenants., because it typically controls the goods or services before transferring them to the customer.

The disclosures of significant accounting judgements, estimates and assumptions relating to revenue from contracts with customers are provided in Note 3.

2.2. Summary of the significant accounting policies (continued)

b) Revenue from contracts with customers (continued)

Revenue from service charge

The Fund provides services related to the management and general maintenance of the investment properties leased. The Fund recognizes the services as a single performance obligation and recognizes revenue from them over time as the client simultaneously receives and consumes the benefits provided by the Fund. Management has assessed that the amounts invoiced correspond directly with the value to the customer of the Fund's performance completed to date. In this relation the Fund recognizes revenue from service charge in the amount for which it has the right to invoice. Revenue from service charge is presented gross of expenses related to the provision of the services, as the Fund has concluded that it is acting as a principal in these arrangements.

In prior years (till 31 December 2017), following IAS 18, revenue is recognised to the extent that it is probable that the economic benefits will flow to the Fund and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable, excluding discounts, rebates, and other sales taxes or duty. Further, the Fund concluded that it is acting as a principal in all of its revenue arrangements except for those related to provision of electricity, water and heating to its tenants, as well as these related to re-invoicing of improvements of leased areas, at the expense of the tenants.

Revenue from sale of properties

Revenue from sale of properties is recognised at the point in time when control of the asset is transferred to the customer, usually at completion of property developed for sale (trading properties) or upon transfer of legal title of investment property, including investment property held for sale (i.e. not subject to development in view of sale).

In prior years (till 31 December 2017), following IAS 18, income from sale of properties is recognized when control and significant risks and rewards of ownership are transferred to the buyer, usually at completion of property developed for sale (trading properties) or upon transfer of legal title of investment property, including investment property held for sale (i.e. not subject to development prior to sale).

Contract balances

Trade receivables

A receivable represents the Fund's right to an amount of consideration that is unconditional (i.e., only the passage of time is required before payment of the consideration is due). Refer to accounting policies of financial assets in section g) Financial instruments – initial recognition and subsequent measurement.

bb) Rent income

Rental income arising from operating leases on properties is accounted for on a straight line basis over the lease terms. Lease incentives provided for the agreement of a new or renewed operating lease are presented as deferred expenses in the statement of financial position and recognised in profit or loss as a reduction of rental income over the lease term, on a straight line basis.

c) Expenses

Expenses are accounted for on an accrual basis. Expenses are charged to the income statement except for expenses incurred on the acquisition of an investment and other properties that are included in the cost of that property and transaction costs for share capital increase which are deducted directly from equity.

d) Taxes

Income tax

The Fund being a Real Estate Investment Trust is not subject to corporate income tax in accordance with the Bulgarian Corporate Income Tax Act.

2.2. Summary of the significant accounting policies (continued)

d) Taxes (continued)

Value Added Tax

Revenues, expenses and assets are recognized net of the amount of Value Added Tax (VAT) except:

- where the VAT incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case the VAT is recognized as part of the cost of acquisition of the asset or other operating expense; and
- receivables and payables that are stated with the amount of VAT included.

The net amount of VAT recoverable from, or payable to, the taxation authority is included as part of the receivables or payables in the statement of financial position.

e) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale and is not measured at fair value are capitalised as part of the cost of the respective assets. All other borrowing costs are expensed in the period they occur. Borrowing costs consist of interest and other costs that the Fund incurs in connection with the borrowing of funds.

f) Earnings per share

Basic earnings per share are calculated by dividing the net profit or loss for the year attributable to the shareholders by the weighted average number of shares outstanding during the year.

The weighted average number of ordinary shares outstanding during the period is the number of ordinary shares outstanding at the beginning of the period, adjusted by the number of ordinary shares bought back or issued during the period multiplied by a time-weighting factor. The time-weighting factor is the number of days that the shares are outstanding as a proportion of the total number of days in the period. In a capitalization or bonus issue or a share split, ordinary shares are issued to existing shareholders for no additional consideration. Therefore, the number of ordinary shares outstanding is increased without an increase in the resources of the Fund. The number of ordinary shares outstanding before the event is adjusted for the proportionate change in the number of ordinary shares outstanding as if the event had occurred at the beginning of the earliest period presented.

g) Financial instruments – recognition and measurement

• Financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, fair value through other comprehensive income (OCI), and fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Fund's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Fund has applied the practical expedient, the Fund initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which the Fund has applied the practical expedient are measured at the transaction price determined under IFRS 15. Refer to the accounting policies in section b) Revenue from contracts with customers.

In order for a debt financial asset to be classified and measured at amortised cost or fair value through OCI, it needs to give rise to cash flows that are 'solely payments of principal and interest (SPPI)' on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level.

The Fund's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

2.2. Summary of the significant accounting policies (continued)

g) Financial instruments – recognition and measurement (continued)

- **Financial assets (continued)**

Initial recognition and measurement (continued)

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognised on the trade date, i.e., the date that the Fund commits to purchase or sell the asset.

In prior years (till 31 December 2017), the Fund has applied the requirements of IAS 39. There are no significant changes in the applied accounting policies resulting from the initial implementation of IFRS 9.

Subsequent measurement

For purposes of subsequent measurement, financial assets are classified in four categories:

- Financial assets at amortised cost (debt instruments)
- Financial assets at fair value through OCI with recycling of cumulative gains and losses (debt instruments)
- Financial assets designated at fair value through OCI with no recycling of cumulative gains and losses upon derecognition (equity instruments)
- Financial assets at fair value through profit or loss

The Fund does not report any equity instruments at fair value through OCI and financial assets at fair value through profit or loss.

Financial assets at amortised cost (debt instruments)

This category is the most relevant to the Fund. The Fund measures financial assets at amortised cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding

Financial assets at amortised cost are subsequently measured using the effective interest (EIR) method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired.

The Fund's financial assets at amortised cost include cash and cash equivalents, deposits and trade and other receivables.

In prior years (till 31 December 2017), the Fund has applied the requirements of IAS 39. There are no significant changes in the applied accounting policies resulting from the initial implementation of IFRS 9.

Derecognition

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Fund's statement of financial position) when:

- The rights to receive cash flows from the asset have expired; or
- The Fund has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Fund has transferred substantially all the risks and rewards of the asset, or (b) the Fund has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

2.2. Summary of the significant accounting policies (continued)

g) Financial instruments – recognition and measurement (continued)

- **Financial assets (continued)**

Derecognition (continued)

When the Fund has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Fund continues to recognise the transferred asset to the extent of its continuing involvement. In that case, the Fund also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Fund has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Fund could be required to repay.

Impairment of financial assets

Further disclosures relating to impairment of financial assets are also provided in the following notes:

- Disclosures for significant assumptions (Note 3)
- Trade receivables, including contract assets (Note 8)

The Fund recognises an allowance for expected credit losses (ECLs) for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Fund expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

For trade receivables (incl. lease receivables) and contract assets, the Fund applies a simplified approach in calculating ECLs. Therefore, the Fund does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Fund has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

The Fund considers a financial asset in default when contractual payments are 90 days past due. However, in certain cases, the Fund may also consider a financial asset to be in default when internal or external information indicates that the Fund is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Fund. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

2.2. Summary of the significant accounting policies (continued)

g) Financial instruments – recognition and measurement (continued)

- **Financial liabilities**

Initial recognition

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

The Fund's financial liabilities include trade and other payables and loans and borrowings.

Subsequent measurement

The measurement of financial liabilities depends on their classification, as described below:

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are incurred for the purpose of repurchasing in the near term. The Fund does not report any financial instruments in this category.

Financial liabilities designated upon initial recognition at fair value through profit or loss are designated at the initial date of recognition, and only if the criteria in IFRS 9 are satisfied. The Fund has not designated any financial liability as at fair value through profit or loss.

Loans and borrowings

This is the category most relevant to the Fund. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the EIR method. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the EIR amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included as finance costs in the income statement.

This category generally applies to interest-bearing loans and borrowings. For more information, refer to Note 11.

Derecognition

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the income statement.

h) Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

2.2. Summary of the significant accounting policies (continued)

i) Share capital

Share capital represents the par value of shares issued and paid by the shareholders. Any proceeds in excess of par value are recorded in share premium.

The Fund recognises a liability to make cash distributions to shareholders when the distribution is authorised or is required by law and the distribution is no longer at the discretion of the Fund. A corresponding amount is recognised directly in equity.

j) Fair value measurement

The Fund measures at fair value for purposes of financial reporting some of its assets and liabilities. On recurring annual basis measured at fair value are investment properties and investment properties held for sale at fair value at each reporting date. Fair values of financial instruments measured at amortised cost are disclosed in Note 18.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability

The principal or the most advantageous market must be accessible to by the Fund.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Fund uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Fund determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

The Fund's management determines the policies and procedures for recurring fair value measurement, such as investment properties, investment properties held for sale and derivatives.

External valuers are involved for valuation of significant assets, such as investment properties and investment properties held for sale, and derivative financial liabilities. Involvement of valuation experts is decided upon annually by the management. Selection criteria for external valuers include market knowledge, reputation, independence and whether professional standards are maintained. The management decides, after discussions with the valuation experts, which valuation techniques and inputs to use for each case.

2.2. Summary of the significant accounting policies (continued)

j) Fair value measurement (continued)

At each reporting date, the management analyses the movements in the values of assets and liabilities which are required to be re-measured or re-assessed as per the Fund's accounting policies. For this analysis, the management verifies the major inputs applied in the latest valuation by agreeing the information in the valuation computation to contracts and other relevant documents. The management, in conjunction with the valuation experts, also compares each of the changes in the fair value of each asset and liability with relevant external sources to determine whether the change is reasonable.

For the purpose of fair value disclosures, the Fund has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

k) Leases

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement at inception date of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset.

Fund as a lessor

Leases where the Fund does not transfer substantially all the risks and benefits of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same bases as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

l) Investment properties

Investment property is property held to earn rentals or for capital appreciation or both. Investment properties are measured initially at cost, including transaction costs. The carrying amount includes the cost of replacing part of an existing investment property at the time that cost is incurred if the recognition criteria are met; and excludes the costs of day to day servicing of an investment property.

Subsequent to initial recognition, investment properties, including investment properties under construction are stated at fair value, which reflects market conditions at the reporting date. Gains or losses arising from changes in the fair values of investment properties are included in the income statement in the year in which they arise.

Investment properties are derecognised when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on the retirement or disposal of an investment property are recognised in the income statement in the year of retirement or disposal.

Gains and losses from the sale of assets in the group of investment properties are determined by comparison of the considerations, to which the Fund expects to be entitled (revenue from sale) and the carrying amount of the asset as at the date the control is transferred.

The Fund transfers a property from investment property to inventories (trading properties) when, and only when, there is a change in use, evidenced by commencement of development with a view of sale. For a transfer from investment property to inventories (trading properties), the deemed cost of property for subsequent accounting is its fair value at the date of change in use. For a transfer from inventories to investment property, any difference between the fair value of the property at that date and its previous carrying amount is recognised in the income statement. If the Fund begins to redevelop an existing investment property for continued use as investment property, the property remains an investment property during the redevelopment. When the Fund decides to dispose of an investment property without development and the condition for classification as held for sale is met, the property is classified as held for sale and measured at fair value.

2.2. Summary of the significant accounting policies (continued)

m) Investment properties held for sale

Investment properties classified as held for sale are measured at fair value (IFRS 5 Non-current assets held for sale and discontinued operations, paragraph 5d). They are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use as an investment property. This condition is regarded as met only when the sale is highly probable and the asset is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Events or circumstances may extend the period to complete the sale beyond one year. An extension of the period required to complete a sale does not preclude an asset from being classified as held for sale if the delay is caused by events or circumstances beyond the entity's control and there is sufficient evidence that the entity remains committed to its plan to sell the asset.

n) Equipment

Equipment is stated at cost, less accumulated depreciation and accumulated impairment in value, if any. Initial acquisition cost includes costs of replacing part of the equipment when that cost is incurred, if the recognition criteria are met. All repair and maintenance costs are recognized in the profit or loss for the period as incurred.

Depreciation is calculated on a straight line basis over the useful life of the asset as follows:

	<u>2018</u>	<u>2017</u>
Furniture and fixtures	5 years	5 years
Computers	2 years	2 years
Other assets	6-7 years	6-7 years

An item of plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the considerations, to which the Fund expects to be entitled (revenue from sale) and the carrying amount of the asset as at the date the control is transferred) is included in the income statement in the year the asset is derecognised.

The asset's residual values, useful lives and methods of depreciation are reviewed, and adjusted if appropriate, at each financial year end.

Equipment representing integral part of investment property, i.e. necessary for the exploitation of the property as per management's intentions, is reported as part of the investment property.

For 2018 and 2017 the Fund did not report any significant items of equipment.

2.2. Summary of the significant accounting policies (continued)

o) Operating segments

An operating segment is a component of the Fund:

- (a) that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the Fund),
- (b) whose operating results are regularly reviewed by the entity's management to make decisions about resources to be allocated to the segment and assess its performance, and
- (c) for which discrete financial information is available.

Two or more operating segments are aggregated into a single operating segment if the segments have similar economic characteristics, and the segments are similar in each of the following respects:

- (a) the nature of the services;
- (b) the type or class of customer for their services;
- (c) the methods used to provide their services; and
- (d) the nature of the regulatory environment regarding the public utilities.

The Fund designates a single external customer as a major customer if it generates 10% or more of its revenue.

As of 31 December 2018, and 2017 the Fund does not report discrete operating segments. Further information for revenue from external customers is provided in Note 5.2.

p) Cash and cash equivalents

Cash and short term deposits in the statement of financial position comprise cash at banks and at hand and short term deposits with an original maturity of three months or less.

Subsequent measurement

Cash and cash equivalents in banks are subsequently measured at amortised cost, decreased by accumulated impairment for expected credit losses.

In prior periods cash and cash equivalents in banks were subsequently measured at amortised cost, decreased by accumulated impairment for incurred credit losses.

For the purpose of the statement of cash flows, cash and cash equivalents consist of cash and short-term deposits as defined above.

q) Provisions

General

Provisions are recognised when the Fund has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Fund expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the income statement net of any reimbursement. If the effect of the time value of money is material, provisions are discounted using a current pre tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

Provision for dividends due

According to the Act on Special Investment Purpose Companies, the Fund is obliged to distribute at least 90% of its annual net profits as adjusted by the effects of all transactions with investment properties carried out throughout the year. Such effects include fair value adjustments for investment properties.

On base of Fund performance for 2018, the management has analysed the obligation for dividend distribution from economical and legal perspective. As a result, the Fund recognised provision for dividends due for its present legal obligation to distribute dividends at the reporting date.

2.2. Summary of the significant accounting policies (continued)

r) Intangible assets

On initial recognition intangible assets acquired separately are measured at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses.

Intangible assets with finite useful lives are amortised over their useful economic life and are assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and amortisation method for intangible assets with finite useful lives are assessed at least at the end of each financial year. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the intangible asset are accounted for by changing the amortisation period or method, as appropriate, and treated as changes in the accounting estimates.

The useful lives of intangible assets are assessed to be finite as follows:

	2018	2017
Software	2 years	2 years

An intangible asset is derecognised from the statement of financial position upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the considerations, to which the Fund expects to be entitled (revenue from sale) and the carrying amount of the asset as at the date the control is transferred) is included in the income statement in the year the asset is derecognised.

For 2018 and 2017 the Fund did not report any significant items of intangible assets.

2.3 Changes in accounting policy and disclosures

New and amended standards and interpretations

New and amended standards and interpretations

The Fund applies IFRS 15 and IFRS 9 for the first time. The nature and effect of the changes resulting from the adoption of these new accounting standards are described below.

For the first time in 2018 some other amendments and clarifications are applied, but they have no impact on the financial statements of the Fund. The Fund has not adopted standards, clarifications or amendments that have been published but have not yet entered into force.

IFRS 9 *Financial Instruments: Classification and Measurement*

IFRS 9 Financial Instruments replaces IAS 39 Financial Instruments: Recognition and Measurement for annual periods beginning on or after 1 January 2018, bringing together all three aspects of the accounting for financial instruments: classification and measurement; impairment; and hedge accounting.

IFRS 9 impose a requirement for the classification of the financial assets based on business model of the Fund for their management and based on the characteristics of the cash flows of the respective assets. The main two categories for the subsequent measurement of financial assets are amortised cost and fair value. The new requirements led to changes in the reporting of debt financial instruments and financial liabilities through profit or loss (the credit risk).

Methodology for impairment – the change is fundamental and introduces the application of the conception and approach of “expected loss”. Following this approach all expected losses of financial assets at amortised cost would be recognised earlier, applying the three risk phases depending on the changes in credit risk, rather than at the occurrence of event of default as it is in the current model under IAS 39.

The three phases are: Phase 1 - at initial recognition of financial asset - 12-month probability of default, Phase 2 – increased credit risk – for the lifetime of the asset and respectively Phase 3 – the actual allowance. For trade receivables, lease receivables and assets from contracts with customers, the standard allows the use of simplified approach for calculation of impairment, following again the concept of the expected credit losses.

2.3 Changes in accounting policy and disclosures (continued)

New and amended standards and interpretations (continued)

IFRS 9 Financial Instruments: Classification and Measurement (continued)

The Fund applied IFRS 9 prospectively, with an initial application date of 1 January 2018. The Fund has not restated the comparative information, which continues to be reported under IAS 39.

The Fund's management has analysed and assessed that the effect of the initial application of IFRS 9 is immaterial, thus no corrections were made in the opening balances of equity as at 1 January 2018.

IFRS 7 (Revised) Financial instruments: Disclosures – Comparative periods need not to be restated when IFRS 9 (effective for annual periods beginning on or after 01.01.2018, adopted by EC) is first applied. This change is related the transitional provisions for the initial application of IFRS 9 and the requirements whether to restate comparative information and the option to apply modified disclosures for the transition from IAS 39 to IFRS 9, at the date of initial application.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 supersedes IAS 11 Construction Contracts, IAS 18 Revenue and related Interpretations and it applies, with limited exceptions, to all revenue arising from contracts with customers. IFRS 15 establishes a five-step model to account for revenue arising from contracts with customers and requires that revenue be recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

IFRS 15 requires entities to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. The standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract. In addition, the standard requires extensive disclosures.

The Fund adopted IFRS 15 using the modified retrospective method of adoption with the date of initial application of 1 January 2018. Under this method, the standard can be applied either to all contracts at the date of initial application or only to contracts that are not completed at this date. The Fund elected to apply the standard to only to contracts that are not completed as at 1 January 2018.

The cumulative effect of initially applying IFRS 15 is recognised at the date of initial application as an adjustment to the opening balance of retained earnings. Therefore, the comparative information was not restated and continues to be reported under IAS 11, IAS 18 and related Interpretations.

The Fund's management has analysed and assessed that there is no effect of the initial application of IFRS 15, thus no corrections were made in the opening balances of equity as at 1 January 2018.

IFRIC 22 Foreign Currency Transactions and Advance Consideration

This interpretation addresses how to determine the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration in a foreign currency. The amendments have no effect on the financial position or performance of the Fund.

IFRS 2 Share-based Payment (Amendments): Classification and Measurement of Share based Payment Transactions

The amendments provide requirements on the accounting for the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments, for share-based payment transactions with a net settlement feature for withholding tax obligations and for modifications to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled. The amendments have no effect on the financial position or performance of the Fund.

2.3 Changes in accounting policy and disclosures (continued)

New and amended standards and interpretations (continued)

IFRS 4 Insurance Contracts (Amendments): Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts

The objective of these amendments is to address issues arising from the different effective dates of IFRS 9 Financial Instruments and the upcoming new insurance contracts standard IFRS 17 Insurance Contract. Entities issuing insurance contracts will still be able to adopt IFRS 9 on 1 January 2018. The amendments introduce two alternative options for entities issuing contracts within the scope of IFRS 4, notably a temporary exemption and an overlay approach. The temporary exemption enables eligible entities to defer the implementation date of IFRS 9. The overlay approach allows an entity applying IFRS 9 from 2018 onwards to remove from profit or loss the effects of some of the accounting mismatches that may occur from applying IFRS 9 before IFRS 17 is applied. They are not relevant for the Fund.

IAS 40 Investment Property (Amendments): Transfers of Investment Property

The amendments clarify transfers of property to, or from, investment property when there is a change in the use of such property which is supported by evidence. The amendments have no effect on the financial position or performance of the Fund.

Annual Improvements to IFRSs 2014-2016 Cycle

Summary of amendments and related standards are provided below:

- IAS 28 Investments in Associates and Joint Ventures - measuring an associate or joint venture at fair value.

The amendments have no effect on the financial position or performance of the Fund.

3. Significant accounting judgments, estimates and assumptions

Judgments

In the process of applying the Fund's accounting policies, management has made the following judgments, apart from those involving estimations, which has the most significant effect on the amounts recognised in the financial statements:

Revenue from contracts with customers

The Fund applied the following judgements that significantly affect the determination of the amount and timing of revenue from contracts with customers:

- **Principal versus agent considerations**

The Fund enters into contracts with its customers to provision of electricity, water and heating to its tenants, as well as these related to re-invoicing of improvements of leased areas, at the expense of the tenants. It is not within the business strategy of the Fund to provide such type of services and thus, the substance of those arrangements is that the Fund acts as an agent of the ultimate provider of the service vis-à-vis its tenants. The Fund determined that it does not control the services before they are transferred to customers, and it does not have the ability to direct the use of the services or obtain benefits from the services. The following factors indicate that the Fund does not control the services before they are being transferred to customers. Therefore, the Fund determined that it is an agent in these contracts.

- The Fund is not primarily responsible for fulfilling the promise to provide the specified services.
- The Fund has no discretion in establishing the price for the specified services.

Thus, the Fund presents the expenses related to provision of electricity, water and heating, as well as these related to improvements of leased areas, at the expense of the tenants net of the re-invoiced amounts received from tenants.

3. Significant accounting judgments, estimates and assumptions (continued)

Judgments (continued)

- **Revenue recognition on sales of investment properties with advance payments received**

Revenue from sale of property is recognised at the point in time when control of the asset is transferred to the customer, usually upon transfer of legal title of investment property. For sales agreements, which contain irrecoverable advance payments by the client, the Fund analyses whether the control over the assets is transferred to the buyer at the moment when the contract is concluded. The analysis takes into account the amount of payment received against the total payment due, as well as the existence of uncertainty regarding the completion of the sale. This judgment depends on the specific conditions and characteristics of each transaction.

- **Effect from initial application of IFRS 15**

The Fund's management has analysed in detail the IFRS 15 requirements and concluded that at initial application there are no effects on the financial statements as at 1 January 2018.

Operating Lease Commitments–Fund as a Lessor

The Fund has entered into leases on its commercial and office properties. The Fund has determined that it retains all the significant risks and rewards of ownership of these properties and so accounts for them as operating leases. Details are provided in Note 16.

Transfers from investment properties

Following its investment objectives (as disclosed in Note 1) the Fund classifies properties as investment properties at recognition. Subsequently, the management applies judgement as to transfers from investment properties depending on its intentions for the future use/realization of the property and its condition (in the process of development or available for immediate sale). Significant accounting policies for transfers to/from investment properties are presented in Note 2.2, 1) above.

Purchases of investment properties

As part of its activities, the Fund acquires investment properties. At the time of each acquisition, the Fund assesses whether it is an acquisition of a business within the scope of IFRS 3 Business combinations or acquisition of an asset within the scope of IAS 40 Investment Property. The Fund reports acquisition of an investment property as a business combination, when apart from the asset it also acquires integrated package of significant activities / processes. When the Fund determines that the acquired activities / processes are not significant, the acquisition is accounted for as an asset acquisition. This assessment depends on the specific conditions and characteristics of each transaction.

Calculation of provision for dividends due

According to the Act on Special Investment Purpose Companies, the Fund is obliged to distribute at least 90% of its annual net profits as adjusted by the effects of all transactions with investment properties carried out throughout the year. Such effects include fair value adjustments for investment properties. This effect includes the net profit/loss from the subsequent measurement of investment properties. Additional information on the judgments made by the Fund and the recognized provision for dividends due as of 31 December 2018 is presented in Note 12.

3. Significant accounting judgments, estimates and assumptions (continued)

Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amount of assets within the next financial year are discussed below.

Provision for expected credit losses of trade receivables

The Fund uses a provision matrix to calculate ECLs for trade receivables. The provision rates are based on days past due for trade receivables.

The provision matrix is initially based on the Fund's historical observed default rates. The Fund calibrated the matrix to adjust the historical credit loss experience with forward-looking information. For instance, if forecast economic conditions (i.e., gross domestic product) are expected to deteriorate over the next year which can lead to an increased number of defaults in the manufacturing sector, the historical default rates are adjusted. At every reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analysed.

The Fund's management has analysed and calculated that the effect of the initial application of IFRS 9 and assessed it as immaterial, thus decided not to report any allowances for expected credit losses as at 1 January 2018 and as at 31 December 2018.

The assessment of the correlation between historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and of forecast economic conditions. The Fund's historical credit loss experience and forecast of economic conditions may also not be representative of customer's actual default in the future. The information about the ECLs on the Fund's trade receivables is disclosed in Note 8.

Fair Value of Investment Properties

The investment properties and properties held for sale have been fair valued by an accredited external valuer based on income or market approach. Considering the real estate market stagnation, the estimated properties' fair values were not always supported by comparable market data. Additional disclosures are provided in Note 6.

4. Standards issued but not yet effective and not early adopted

Standards issued but not yet effective and not early adopted up to the date of issuance of the Fund's financial statements are listed below. This listing is of standards and interpretations issued, which the Fund reasonably expects to have an impact on disclosures, financial position or performance when applied at a future date. The Fund intends to adopt those standards when they become effective.

IFRS 16 Leases

IFRS 16 was published in January 2016 and replaces IAS 17 *Leases*, IFRIC 4 *Determining Whether an Arrangement Contains a Lease*, SIC-15 *Operating Leases—Incentives*, SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*.

IFRS 16 sets out the principles for recognition, measurement, presentation and disclosures of leases and requires lessees to account all lease contracts based on uniform balance method, that is similar to the accounting treatment of finance lease in accordance with IAS 17. The Standard provides two exemptions from recognition of lease contracts – leases of low value assets (e.g. laptop computers) and short-term leases (e.g. lease with a lease term of 12 months or less). At the commencement date of the lease the lessee recognizes a liability to make lease payments (i.e. the lease liability) and an asset representing the right to use the underlying asset (i.e. the right-of-use asset). The lessees will be required to recognize separately interest expenses on the lease liability and depreciation expense on the right-of-use asset.

4. Standards issued but not yet effective and not early adopted (continued)

IFRS 16 Leases (continued)

The lessees will be also required to remeasure the lease liability when there is a lease modification (e.g. change in lease term, change in future lease payments resulting from a change in an index or a rate used to determine those payments). In general, the lessee will recognize the amount of remeasurement of the lease liability as correction in the right-of-use asset.

According to IFRS 16 the lessor accounting remains substantially unchanged from current accounting in accordance with IAS 17. Lessors will classify all leases using the same classification principle as in IAS 17 and distinguish between operating and finance leases.

IFRS 16, which is effective for annual periods beginning on or after 1 January 2019, requires lessees and lessors to provide more extensive disclosures from the ones required by IAS 17.

Transition to IFRS 16

The Fund plans to apply IFRS 16 by electing the modified retrospective approach. The Fund will apply the Standard to contracts that were previously identified as leases applying IAS 17 and IFRIC 4. Hence, the Fund won't apply the Standard to contracts that were not previously identified as leases applying IAS 17 and IFRIC 4.

As at the date of approval of financial statements for 2018, the Fund is still in the process of finalizing the analysis of the effects of the initial adoption of IFRS 16.

Following the initial management assessment, it is not expected that the initial adoption of IFRS 16 would significantly impact its financial position or performance.

IFRS 17: Insurance Contracts

The standard is effective for annual periods beginning on or after 1 January 2021 with earlier application permitted if both IFRS 15 Revenue from Contracts with Customers and IFRS 9 Financial Instruments have also been applied. IFRS 17 Insurance Contracts establishes principles for the recognition, measurement, presentation and disclosure of insurance contracts issued. It also requires similar principles to be applied to reinsurance contracts held and investment contracts with discretionary participation features issued. The objective is to ensure that entities provide relevant information in a way that faithfully represents those contracts. This information gives a basis for users of financial statements to assess the effect that contracts within the scope of IFRS 17 have on the financial position, financial performance and cash flows of an entity. The standard has not been yet endorsed by the EU. It is not applicable for the Fund.

Amendments to IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

The amendments address an acknowledged inconsistency between the requirements in IFRS 10 and those in IAS 28, in dealing with the sale or contribution of assets between an investor and its associate or joint venture. A full gain or loss is recognized when a transaction involves a business or a partial gain or loss is recognized when a transaction involves assets that do not constitute a business. The IASB postponed the effective date of this amendment indefinitely pending the outcome of its research project on the equity method of accounting. The amendments have not yet been endorsed by the EU. It is not expected that these amendments would impact the financial position or performance of the Fund.

4. Standards issued but not yet effective and not early adopted (continued)

IFRIC 23 Uncertainty over Income Tax Treatments

The Interpretation is effective for annual periods beginning on or after 1 January 2019 with earlier application permitted. The Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12. The Interpretation provides guidance on considering uncertain tax treatments separately or together, examination by tax authorities, the appropriate method to reflect uncertainty and accounting for changes in facts and circumstances. The Fund is in the process of assessing the impact of the new interpretation on its financial position or performance.

IFRS 9 Financial Instruments: Classification and Measurement (Amendments): Prepayment Features with Negative Compensation

The Amendments, effective for annual periods beginning on or after 1 January 2019 with earlier application permitted, propose a change to IFRS 9 for particular financial assets that would otherwise have contractual cash flows that are solely payments of principal and interest but do not meet that condition only as a result of a negative prepayment feature. Specifically, for a financial asset that contains a prepayment option that may result in the payment of a reasonable negative compensation amount, the Amendments require the financial asset to be measured at amortised cost or at fair value through other comprehensive income, subject to the assessment of the business model in which it is held. It is not expected that these amendments would impact the financial position or performance of the Fund.

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

The amendments are effective for annual periods beginning on or after 1 January 2019 with earlier application permitted. The Amendments clarify that an entity applies IFRS 9 Financial Instruments to long-term interests in an associate or joint venture that, in substance, form part of the net investment in the associate or joint venture but to which the equity method is not applied. An entity applies IFRS 9 to such long-term interests before it applies IAS 28. In applying IFRS 9, the entity does not take account of any adjustments to the carrying amount of long-term interests that arise from applying IAS 28. It is not expected that these amendments would impact the financial position or performance of the Fund.

IAS 19 Employee Benefits (Amendments): Plan Amendment, Curtailment or Settlement

The amendments are effective for annual periods beginning on or after 1 January 2019 with earlier application permitted. The amendments require entities to use updated actuarial assumptions to determine current service cost and net interest for the remainder of the annual reporting period after a plan amendment, curtailment or settlement has occurred. The amendments also clarify how the accounting for a plan amendment, curtailment or settlement affects applying the asset ceiling requirements. These amendments have not yet been endorsed by the EU. The Fund is in the process of assessing the impact of these amendments on its financial position or performance.

IFRS 3 Business combinations (Amendments): Definition of a business

The amendments are effective for annual periods beginning on or after 1 January 2020 with earlier application permitted. The amendments clarify the minimum requirements for a business and narrow the definition of a business. The amendments also remove the assessment of whether market participants are capable of replacing any missing elements, add guidance to help entities assess whether an acquired process is substantive and introduce an optional fair value concentration test. These amendments have not yet been endorsed by the EU. The Fund is in the process of assessing the impact of these amendments on its financial position or performance.

Amendments to IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors: Definition of 'material'

The amendments are effective for annual periods beginning on or after 1 January 2020 with earlier application permitted. The amendments clarify the definition of material and how it should be applied by including in the definition guidance that until now has featured elsewhere in IFRS Standards. The amendments also specify that materiality will depend on the nature or magnitude of information. These amendments have not yet been endorsed by the EU. The Fund is in the process of assessing the impact of these amendments on its financial position or performance.

4. Standards issued but not yet effective and not early adopted (continued)

The Conceptual Framework for Financial Reporting

The IASB issued the revised Conceptual Framework for Financial Reporting on 29 March 2018, which is effective for annual periods beginning on or after 1 January 2020. The Conceptual Framework sets out a comprehensive set of concepts for financial reporting, standard setting, guidance for preparers in developing consistent accounting policies and assistance to others in their efforts to understand and interpret the standards. The main amendments introduced in the revised Conceptual framework for financial reporting are related to measurement, including factors, which should be considered when choosing measurement basis, and to presentation and disclosure, including income and expenses which should be classified in other comprehensive income. The Conceptual framework also provides updated definitions for asset and liability and criteria for their recognition in the financial statements. The Conceptual framework for financial reporting has not yet been endorsed by the EU. The Fund is in the process of assessing the impact of these amendments on its financial position or performance.

Annual Improvements to IFRSs 2015-2017 Cycle

In the 2015-2017 annual improvements cycle, the IASB issued amendments to standards which are effective for annual periods beginning on or after 1 January 2019. Summary of amendments and related standards are provided below:

- IFRS 3 Business Combinations and IFRS 11 Joint Arrangements – clarifying previously held interest in a joint operation;
- IAS 12 Income taxes – clarifying income tax consequences of payments on financial instruments classified as equity;
- IAS 23 Borrowing costs - clarifying borrowing costs eligible for capitalization.

The improvements to IFRSs 2015 – 2017 Cycle have not yet been endorsed by EU. The Fund is in the process of assessing the impact of the amendments on its financial statements.

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5. Income and expenses

5.1. Revenue

	2018	2017
	<i>EUR thousand</i>	<i>EUR thousand</i>
Rental income from investment properties	3,086	2,828
Revenue from contracts with customers - Service charge	369	330
	3,455	3,158

5.2. Revenue from external customers

a) Geographical information

The Fund's rental income is generated from external customers located in Bulgaria.

b) Information for major customers

Type of income		2018		2017	
		<i>EUR thousand</i>	<i>Percentage of the relevant income</i>	<i>EUR thousand</i>	<i>Percentage of the relevant income</i>
Customer 1	Rent	1,101	36%	1,083	38%
Customer 2	Rent	927	30%	814	29%
Customer 2	Service charge	177	47%	154	47%
Customer 3	Rent	283	9%	210	7%
Customer 3	Service charge	51	14%	50	15%
Customer 4	Rent	270	9%	266	9%
Customer 4	Service charge	47	14%	47	14%

According to IFRS 8 "Operating Segments" BREF designates a single external customer as a major customer if it generates ten percent or more of its revenue.

5.3. Other income

	2018	2017
	<i>EUR thousand</i>	<i>EUR thousand</i>
Rent income	7	11
Change in accrual for legal obligations	-	37
Payables written off	-	4
Other	2	6
	9	58

BULGARIAN REAL ESTATE FUND ADSIC
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5. Income and expenses (continued)

5.4. Direct operating expenses arising from properties

	<u>2018</u>	<u>2017</u>
	<i>EUR thousand</i>	<i>EUR thousand</i>
<i>Direct operating expenses arising from properties that generated rental income</i>		
Investment properties	(539)	(481)
	<u>(539)</u>	<u>(481)</u>
<i>Direct operating expenses arising from properties that did not generate rental income</i>		
Investment property held for sale	(35)	(98)
Investment properties	(25)	(93)
	<u>(60)</u>	<u>(191)</u>
Total direct operating expenses arising from properties	<u>(599)</u>	<u>(672)</u>

A break-down of direct operating expenses related to properties is provided below:

	<u>2018</u>	<u>2017</u>
	<i>EUR thousand</i>	<i>EUR thousand</i>
Service charge expenses	(240)	(231)
Local taxes and fees	(175)	(237)
Repair and maintenance	(114)	(81)
Fees for sundry services	(41)	(101)
Other	(29)	(22)
	<u>(599)</u>	<u>(672)</u>

5.5. Other expenses

	<u>2018</u>	<u>2017</u>
	<i>EUR thousand</i>	<i>EUR thousand</i>
Audit fee	(11)	(20)
Fees for sundry services	(23)	(25)
Depreciation	(4)	(2)
Bank charges	(1)	(2)
Other	(23)	(15)
	<u>(62)</u>	<u>(64)</u>

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6. Properties

6.1. Investment property

	Agricultural land	Non- agricultural land	Commercial and office properties	Properties under construction	Total
	<i>EUR</i> <i>thousand</i>	<i>EUR</i> <i>thousand</i>	<i>EUR</i> <i>thousand</i>	<i>EUR</i> <i>thousand</i>	<i>EUR</i> <i>thousand</i>
At 1 January 2017	173	5,996	29,092	-	35,261
Additions	-	-	372	5,142	5,514
Net gains/(losses) from fair value adjustments	75	(690)	1,804	(134)	1,055
At 31 December 2017	248	5,306	31,268	5,008	41,830
At 1 January 2018	248	5,306	31,268	5,008	41,830
Additions	-	-	70	378	448
Transfer from properties under construction	-	-	63	(63)	-
Net gains/(losses) from fair value adjustments	8	(228)	1,441	90	1,311
At 31 December 2018	256	5,078	32,842	5,413	43,589

Properties under construction

Properties under construction as of 31 December 2018 consist of the fair value of costs incurred in regard to the acquisition of construction right in Zone 2 of the construction plan of the Science and Technology Park in Sofia, exploratory and designer works, as well as fee for construction permission.

BULGARIAN REAL ESTATE FUND ADSIC
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6. Properties (continued)

6.1. Investment property (continued)

Fair value measurement

The Fund engaged an accredited external appraiser to fair value its investment properties, including non-agricultural land held for sale. The effective date of the valuations was 31 December 2018. Fair values were estimated by applying the following valuation methods:

- Capitalization of income method was used to value commercial properties, office buildings and properties under construction which generate or will generate income on the basis of concluded or forecasted long-term lease arrangements.

Under this method, fair value is estimated using assumptions regarding the benefits and liabilities of ownership of the asset over a known period. This method involves the projection of a series of cash flows deriving from the investment property. To this projected cash flow series, a market-derived discount rate is applied to establish the present value of the income stream associated with the asset. The duration of the cash flows and the specific timing of inflows and outflows are determined by events such as rental arrangement, lease renewal and renegotiation of rent levels; expected terms for redevelopment or refurbishment.

The appropriate duration is typically driven by market behaviour that is a characteristic of the class of investment property. Net cash flows are typically estimated as gross rental income less projected vacancy, non-recoverable expenses, maintenance costs, agent and commission costs and other operating and management expenses. The net operating income is then discounted after correction with the part of rental income related to the adjacent land. For this purpose a rate of return of 5.5%-6.5% is applied to the land, which fair value is measured using the market comparables method.

- Market comparables method was used to value all other investment properties (including land adjacent to commercial properties and office properties), including non-agricultural land held for sale. As they comprise land plots with uncertain future development, this approach was considered the most appropriate. Due to the real estate market illiquidity, the input data for the valuation was based on offer prices for comparable land plots adjusted for specific characteristics of Fund's properties such as location, size, accessibility, and infrastructure.

A break-down of the estimated fair values by valuation method is presented below:

	<u>2018</u>	<u>2017</u>
	<i>EUR thousand</i>	<i>EUR thousand</i>
Investment properties valued under capitalization of income method	38,256	36,276
<i>Including fair value of adjacent land valued under market comparables method</i>	8,233	8,046
Investments properties valued under market comparative method	<u>5,333</u>	<u>5,554</u>
Total investment properties at fair value	<u>43,589</u>	<u>41,830</u>

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6. Properties (continued)

6.1. Investment property (continued)

Significant assumptions used in fair value measurement of investment properties

The significant assumptions used in the valuations of investment properties, including non-agricultural land held for sale are set out below:

	Valuation technique	Significant unobservable inputs	2018	2017
Commercial and office properties	Capitalization of income method/ Market comparables method	Gross rental income – EUR per month – commercial property 1	61,340	63,710
		Gross rental income – EUR per month – commercial property 2	43,285	44,855
		Gross rental income – EUR per month – office property 1	90,345	87,380
		Gross rental income – EUR per month – office property 2	110,250	110,210
		Vacancy risk - % of gross rent income	12.15%- 13.5%	5%- 19.5%
		Capitalization rate (discount rate)	9%	9%
		Adjustment for illiquidity of the land	-15%	-15%
		Adjustments for specific input parameters of the land	*	*
Properties under construction	Capitalization of income method	Forecasted gross rental income - EUR per month	409,441	422,447
		Vacancy risk - % of gross rent income	10.5%	10.5%
		Capitalization rate (discount rate)	9%	9%
		Expected costs for completion of the project	**	**
Agricultural lands	Market comparables method	Adjustments for specific input parameters	*	*
Non-agricultural lands, including non-agricultural land held for sale	Market comparables method	Adjustment for illiquidity	-15%	-15%
		Adjustments for specific input parameters	*	*

*- The adjustments for specific input parameters are related to location, size, accessibility, infrastructure, potential of development of the zone and other and range according to the comparable property.

**- The expected costs for completion of the project are calculated on the basis of the total budget for the construction of business investment property in Science and Technology Park, Sofia, reduced by the costs incurred as of 31 December 2018.

Sensitivity Analysis

Significant increases/ (decreases) in rental income as an isolated parameter would result in a significantly higher/ (lower) fair value of the investment properties. Significant increases/ (decreases) in vacancy risk and in discount rate as isolated parameters would result in a significantly lower/ (higher) fair value of the investment properties. Significant increases/ (decreases) in the additional discount from the used offered prices due to illiquid market – adjustment for illiquidity as an isolated parameter would result in a significantly lower/ (higher) fair value of the investment properties.

6. Properties (continued)

6.1. Investment property (continued)

Significant assumptions used in fair value measurement of investment properties

Other disclosures

As at 31 December 2018 investment properties with fair value of EUR 11,496 thousand (2017: EUR 22,625 thousand) are subject to first rank mortgage to secure the Fund's interest-bearing bank loans (Note 11).

6.2. Investment property held for sale

	Non-agricultural land	Vacation property	Total
	<i>EUR thousand</i>	<i>EUR thousand</i>	<i>EUR thousand</i>
At 1 January 2017	3,368	760	4,128
Additions	-	4	4
Gains from fair value adjustments	-	24	24
Sale of property	(3,368)	(6)	(3,374)
At 31 December 2017	-	782	782
At 1 January 2018	-	782	782
Losses from fair value adjustments	-	(13)	(13)
Sale of property	-	(43)	(43)
At 31 December 2018	-	726	726

Investment properties held for sale (not subject to development prior to sale) are carried at fair value estimated by an accredited external appraiser, by using market comparable method. The effective date of the valuation is 31 December 2018. Any fair value adjustments were included in the income statement.

Significant assumptions used in fair value measurement of investment properties held for sale are presented below:

	Valuation technique	Significant unobservable inputs	2018	2017
Vacation property	Market comparables method	Adjustment for illiquidity (apartments and garage spaces)	-37%	-37%
		Adjustment for illiquidity (land)	-20%	-15%
		Adjustments for specific input parameters	*	*

*- The adjustments for specific input parameters are related to location, size, accessibility, infrastructure, potential of development of the zone and other and range according to the comparable property.

Sensitivity Analysis

Significant increases/ (decreases) in the additional discount from the used offered prices due to illiquid market – adjustment for illiquidity as an isolated parameter would result in a significantly lower/ (higher) fair value of the investment properties.

6. Properties (continued)

6.2. Investment property held for sale (continued)

Other disclosures – Vacation property held for sale

Investment properties held for sale as of 31 December 2018 and 31 December 2017 consist of vacation property and land related to it. The property was bought in 2007, but due to lower interest from potential buyers due to the financial crisis and its impact on the market for vacation properties, the Fund failed to realize the property despite its active marketing campaign. The Fund intends to continue working actively towards the sale of the property in the next years.

In 2018 and 2017, due to the illiquidity of the real estate market and the lack of information on the parameters of specific transactions (except for the sale of own apartments on the same property in June 2016 and the sale of two apartments in 2018) in the fair value measurement are used bid prices for comparable properties adjusted for the specific characteristics of the properties held for sale by the Fund, as well as prices for the realized own sales. The fair value hierarchy of the Fund's investment properties and investment properties held for sale are disclosed in Note 18.

7. Deferred expenses

	2018	2017
	<i>EUR thousand</i>	<i>EUR thousand</i>
Prepaid fees	22	1
Insurance	9	9
	31	10

8. Trade and other receivables

	2018	2017
	<i>EUR thousand</i>	<i>EUR thousand</i>
Rental income receivable	147	49
Prepayments to the Management fund	32	-
Consumables receivable	29	15
Deposits granted	10	10
Prepayments to suppliers	8	8
Receivables from contracts with customers	10	1
	236	83

Trade receivables are non-interest bearing with the following payment terms:

- Rental receivables from lease of commercial/office premises – 14 day terms;
- Rental receivables from lease of agricultural land - within the agricultural year ending 30 September.

Rental income receivables are pledged as collateral for the Fund's long-term bank loans (Note 11).

As at 31 December 2018 and 2017, the ageing analysis of trade and other receivables is as follows:

	Total	Neither past due nor impaired	Past due but not impaired				>120 days
			< 30 days	30-60 days	60-90 days	90-120 days	
	<i>EUR thousand</i>	<i>EUR thousand</i>	<i>EUR thousand</i>	<i>EUR thousand</i>	<i>EUR thousand</i>	<i>EUR thousand</i>	<i>EUR thousand</i>
2018	186	8	94	65	13	2	4
2017	65	38	23	3	-	-	1

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9. Cash, cash equivalents and restricted cash

	<u>2018</u>	<u>2017</u>
	<i>EUR thousand</i>	<i>EUR thousand</i>
Cash at bank and in hand	15,810	1,732
Short-term deposits	<u>12</u>	<u>12</u>
Cash as per Statement of cash flow	<u>15,822</u>	<u>1,744</u>

Cash at banks earns interest at floating rates based on daily bank deposit rates. The short-term deposits as of 31 December 2018 are one-month deposits made in Bulgarian Leva (2017: one-month deposits). They bear interest on agreed fixed interest rates. The short-term deposits can be withdrawn at the option of the Fund at any time.

Cash and cash equivalents, own by the Fund, are denominated in BGN and EUR (31.12.2017: BGN and EUR).

The following table summarizes changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes by providing a reconciliation between the opening and closing balances in the statement of financial position for liabilities arising from financing activities for the year ended 31 December 2018.

	<u>1 January</u>	<u>Cash</u>	<u>Cash</u>	<u>Cash</u>	<u>Effective</u>	<u>Provision</u>	<u>31</u>
	<u>2018</u>	<u>inflows</u>	<u>outflows</u>	<u>outflows</u>	<u>interest rate</u>	<u>for</u>	<u>December</u>
	<i>EUR</i>	<i>EUR</i>	<i>EUR</i>	<i>EUR</i>	<i>EUR</i>	<i>EUR</i>	<i>EUR</i>
	<i>thousand</i>	<i>thousand</i>	<i>thousand</i>	<i>thousand</i>	<i>thousand</i>	<i>thousand</i>	<i>thousand</i>
Interest-bearing loans and borrowings	5,191	-	(580)	(159)	160	-	4,612
Dividends payable	<u>351</u>	<u>-</u>	<u>(351)</u>	<u>-</u>	<u>-</u>	<u>1,765</u>	<u>1,765</u>
Total liabilities from financing activities	<u>5,542</u>	<u>-</u>	<u>(931)</u>	<u>(159)</u>	<u>160</u>	<u>1,765</u>	<u>6,377</u>

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10. Share capital, share premium and reserves

10.1. Share capital

Authorized and fully paid

	2018	2017
	<i>EUR thousand</i>	<i>EUR thousand</i>
Ordinary shares of EUR 0.551 each (BGN1) (2017: EUR 1.534 each (BGN 3 each))	34,642	30,907
	34,642	30,907

Ordinary shares

	Number of shares	Amount
	<i>Thousand</i>	<i>EUR thousand</i>
<i>Authorized, issued and fully paid</i>		
At 1 January 2017	20,150	30,907
At 31 December 2017	20,150	30,907
Decrease in nominal value of shares from EUR 1.534 each (BGN 3 each) to EUR 0.511 each (BGN 1 each)	-	(20,605)
Increase in share capital	14,492	7,410
At 31 December 2018	34,642	17,712

On 28 February 2018 the General Meeting of Shareholders of the Fund voted a decision to decrease the Fund's share capital by decreasing the nominal value of the issued shares from EUR 1.534 (BGN 3) to EUR 0.511 (BGN 1) each. The amount of EUR 20,605 thousand representing funds, released as a result of the decrease of the share capital, are transferred to Reserves.

On 20 April 2018 the Board of directors of the Fund took a decision for increase of share capital. On 6 November 2018, the registration of the Commercial Register with the Registry Agency was successfully completed, as a result of which the Fund's share capital was increased to EUR 17,712,135 divided into 34,641,925 ordinary voting shares with a nominal value of EUR 0.511 each.

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10. Share capital, share premium and reserves (continued)

10.1. Share capital (continued)

The ownership structure of the authorized share capital of the Fund as at 31 December 2018 is as follows:

	Number of shares (thousand)	Shareholding percentage
UPF DSK Rodina AD	2,363	6.82%
NN Universal Pension Fund	2,328	6.72%
ZYPF Allianz Bulgaria	2,290	6.61%
Universal Pension Fund Doverie AD	1,573	4.54%
NN Voluntary Pension Fund	1,395	4.03%
MNI OOD	1,068	3.08%
Nikolay Bogdanov Iliev	1,000	2.89%
Swedbank AS Clients	895	2.58%
Anri Moys Levi	779	2.25%
NN Professional Pension Fund	773	2.23%
Expat Bulgaria Sofix UCITS ETF	773	2.23%
UPF Pension Insurance Institute	680	1.96%
Mibo Consult EOOD	661	1.91%
Nikolay Sergeevic Dragomiretski	649	1.87%
Todor Ludmilov Breshkov	547	1.58%
First Investment Bank AD	523	1.51%
DPF Allianz Bulgaria	499	1.44%
Chavdar Ivanov Donkov	499	1.44%
PFK DSK Rodina AD	497	1.43%
DF OBB premium shares	486	1.40%
Shareholders with under 1.4%	14,364	41.48%
	34,642	100%

10.2. Share premium

As at 31 December 2018 the share premium reserve amounts to 30,361 EUR thousand (2017: EUR 3,245 thousand), representing the excess of the proceeds of the issue of new shares in 2006 and 2018 over their nominal value and the decrease of nominal value of shares from EUR 1.534 each (BGN 3 each) to EUR 0.511 each (BGN 1 each) in 2018. The share premium reserve can only be utilized for covering current or prior year losses and under specific conditions for increase of the registered capital.

	2018 <i>EUR thousand</i>	2017 <i>EUR thousand</i>
At 1 January 2018	3,245	3,245
Decrease in nominal value of shares from EUR 1.534 each (BGN 3 each) to EUR 0.511 each (BGN 1 each)	20,605	-
Increase in share capital	6,669	-
Transaction costs related with increase in share capital	(158)	-
At 31 December 2018	30,361	3,245

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11. Long-term interest bearing loans

	Nominal interest rate %	Maturity	2018	2017
			<i>EUR thousand</i>	<i>EUR thousand</i>
Current portion				
Investment bank loan with maximum permitted limit of BGN 11,000 thousand	3.1% + BIR* (2017: 3-month Sofibor + 3.1%)	December 2025	598	580
Interest payable			4	5
Adjustment to amortized cost			(2)	(2)
			600	583
Non-current portion				
Investment bank loan with maximum permitted limit of BGN 11,000 thousand	3.1% + BIR* (2017: 3-month Sofibor + 3.1%)	December 2025	4,024	4,622
Adjustment to amortized cost			(12)	(14)
			4,012	4,608

* BIR - Bank interest rate (sum of Prime business clients in BGN adjusted with conversion component).

Investment bank loan with maximum permitted limit of EUR 5,624 thousand (BGN 11,000 thousand)

On 18 January 2016 the Fund signed an agreement for investment bank loan with Eurobank Bulgaria AD with maximum permitted limit of BGN 11,000 thousand (EUR 5,624 thousand), utilized in tranches. The purpose of the loan is to finance the construction of business investment property – office building in Sofia, Vitosha region, Malinova dolina. The term of the agreement is 10 years with one year grace period for the principal. The loan is secured by a mortgage over the office property with total fair value as of 31 December 2018 amounting to EUR 11,496 thousand (31.12.2017: EUR 22,625 thousand), pledge on all current and future receivables related to contracts for operating lease with the office property. The loan is repayable in monthly instalments due on the 21 of each month. Analysis on the maturity structure of the loan, based on the contractual undiscounted payments is presented in Note 17. As of 31 December 2018 and 2017 the loan is fully utilized.

Under the investment bank loan agreement, until the repayment of the loan the Fund has an obligation to maintain a Debt Service Coverage Ratio, calculated as the ratio between operating profit (representing the difference between rental income and service charge realized during the period and the direct operating expenses arising from properties, without taking into account the cost related to revaluation of properties over the same period) to the sum of the payments due in regards to principal, interest, taxes and commissions on all loans to financial institutions – higher than 1.2. As of 31 December 2018 the Fund complies with the required ratio.

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12. Provision for dividends due

	<u>2018</u>	<u>2017</u>
	<i>EUR thousand</i>	<i>EUR thousand</i>
Provision for dividends due	1,733	345
Provision for withholding tax	<u>32</u>	<u>6</u>
	<u>1,765</u>	<u>351</u>
Adjusted weighted average number of ordinary shares (in thousand)	<u>22,373</u>	<u>20,150</u>
Dividend per share, gross (in Euro)	<u>0.079</u>	<u>0.017</u>

On 20 April 2018 the Board of directors of the Fund took a decision for increase of share capital. On 6 November 2018, the registration of the Commercial Register with the Registry Agency was successfully completed, as a result of which the Fund's share capital was increased to EUR 17,712,135 divided into 34,641,925 ordinary voting shares with a nominal value of EUR 0.511 each. The dividend per share, gross for 2018, is calculated on the basis of the weighted average number of ordinary shares held for the year.

Following a decision of the General Meeting of the Shareholders of the Fund on 22 February 2016, the nominal value of the issued shares was increased to EUR 1.534 and their number was reduced to 20,150 thousand. The ratio dividend per share, gross for 2017 is calculated based on the number of shares after the decision to reduce their number – 20,150 thousand.

According to the Act on Special Investment Purpose Companies (ASIPC), the Fund is obliged to distribute at least 90% of its annual net profits as adjusted by the effects of all transactions with investment properties carried out throughout the year. Such effects include fair value adjustments for investment properties, which are not subject to distribution i.e. the recognized gains or losses from revaluation of investment properties recognized in the current period, as well as the cumulative gains or losses related to properties disposed in the current period in order to arrive at their acquisition cost, which includes the initial and subsequent acquisition costs.

The above provision requires the Fund to make estimations related to the allocation of initial and subsequent acquisition costs of the investment properties, when at the end of the reporting period only part of the property is sold, or when there is a change in the regulation status of part of the investment property owned. When the initial and subsequent acquisition costs cannot be directly allocated to the part of the property sold, the Fund uses appropriate for the particular situation allocation base, such as sold square meters compared to the total area of the property, fair value of the sold part of the property compared to the fair value of the whole property as determined at the date of purchase and others. The table below presents the initial and subsequent acquisition costs of the investment properties owned by the Fund as of 31 December 2018 and 31 December 2017:

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12. Provision for dividends due (continued)

	2018		2017	
	Initial and subsequent acquisition cost	Fair value	Initial and subsequent acquisition cost	Fair value
	<i>EUR thousand</i>	<i>EUR thousand</i>	<i>EUR thousand</i>	<i>EUR thousand</i>
Investment properties				
Office building - Kambanite	8,967	11,496	8,904	11,033
Office building – Business Park Sofia	7,438	9,610	7,416	8,643
Bricolage Sofia	6,124	6,993	6,078	6,925
Construction right - Science and Technology Park Sofia	5,457	5,414	5,142	5,008
Investment properties - Sofia - Mladost IV	4,817	1,781	4,817	1,773
Bricolage Varna	4,316	4,743	4,313	4,667
Investment property - Tsarevo	2,254	2,041	2,254	2,278
Investment property - Vidin	301	631	301	631
Investment property - V. Tarnovo	192	624	192	624
Agricultural land	58	256	59	248
Investment property held for sale				
Vacation property - Borovets	1,627	726	1,693	782
Total	41,551	44,315	41,169	42,612

In addition to the requirements of the Act on Special Investment Purpose Companies (ASIPC) related to the distribution of dividends, the Fund also considers the requirements of the Commercial law in relation to the required value of the net assets.

Based on the Fund's financial performance for the year ended 31 December 2018 dividend distribution was considered on the basis of operational and legal considerations. As a result, the Fund recognised provision for dividends at the amount of EUR 1,765 thousand (2017: EUR 351 thousand), based on 90% of its profit for the year adjusted as per the requirements of ASIPC, which the Fund had legal obligation to distribute, as a minimum, at the reporting date.

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13. Trade and other payables

	2018	2017
	<i>EUR thousand</i>	<i>EUR thousand</i>
Payables to the Management Company	191	573
- management fee payable	52	338
- payables related to construction works	118	207
- other payables	21	28
Received deposits by tenants	131	76
Prepayments by clients	73	72
VAT payables	13	-
Payables to suppliers	8	27
Accrued liabilities for claims	2	2
Other payables	42	30
	460	780

Terms and conditions of the financial liabilities are:

- Payables to the Management Fund are non-interest bearing and normally settled on 30 day terms or in accordance with the individual contractual provisions with the sub-contractors. Additional disclosures are provided in Note 14.1.
- Payables to various suppliers are non-interest bearing and are normally settled on 14 day terms.

Other disclosures

Guarantees for qualitative fulfilment of contractual obligations -retentions

According to the contracts signed with subcontractors in relation to its investment projects, the Fund retains certain amounts as guarantee for qualitative fulfilment of contractual obligations by subcontractors. Retentions are determined as a percentage of each progress payment. They are non-interest bearing and are payable in the period 2018-2019. Upon initial recognition, the retentions are measured at the present value of the related future cash flows. As of 31 December 2018 the short-term portion of the retentions is amounting to EUR 79 thousand and is presented as part of the Obligations under construction contracts (2017: EUR 81 thousand). As of 31 December 2018 the Fund does not account for long-term liabilities in regards to amounts retained for quality performance under construction contracts (2017: nil).

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14. Related party disclosures

During the year, the Fund entered into transactions with related parties. These transactions along with the related balances as at 31 December 2018 and 2017 are presented below.

14.1. Fees and payables to Management Fund

Real Estate Management Fund (Management Fund) has been appointed by the Board of Directors of the Fund as a management fund of the Fund under the terms of an agreement dated 11 January 2005. The Management fund is a partnership incorporated in Bulgaria. It is responsible for the daily management, including investment management of the Fund and rendering of advisory services. The Management fund may, subject to the approval of the Board of Directors, appoint at its own cost one or more investment advisor(s) who shall supply the Management fund with recommendations and advice with respect to the Fund's investment policy as described in the Prospectus, and who may have discretion on a day-to-day basis and subject to the overall control of the Management fund, to purchase and sell investment properties as agent for the Fund, as appropriate, and otherwise to manage the investments of the Funds for the account and in the name of the Fund, as appropriate, in relation to specific transactions, under the terms of the agreement and related annexes.

Real Estate Management Fund is entitled to receive management fees. Till the end of October 2018 these fees are based on an aggregate of 1.5% per annum on the Net Asset Values of the Fund. Since November 2018 the fees are decreased to 1% per annum on the Net Asset Values of the Fund. Management fees are payable monthly in arrears.

The Management Fund is entitled to receive success fees for the sale of properties amounting to 15% on the positive difference between the selling price of every property sold and the cost of that property (including the direct current expenses and the related part of the overhead expenses for the period of owning the property).

As per the Articles of Association of the Fund the total amount of the annual fees payable/paid to the Management Fund, directors, auditors, valuers and depository bank cannot exceed 8% of the total assets of the Fund.

For 2018 management fees charged were EUR 572 thousand (2017: EUR 551 thousand).

For 2018 no success fee was charged by the Management fund (2017: nil).

Other receivables from and payables to the Management Fund are presented in Note 8 and Note 13, respectively.

14.2. Directors' remunerations and Board expenses

The Directors are entitled to remuneration for their services at rates determined by the General Meeting of Shareholders. In addition, Directors are reimbursed for reasonable travelling, hotel and other incidental expenses in respect of attending meetings of the Directors or General Meetings of the Fund. The Director's remunerations vary from one to ten minimal monthly salaries for Bulgaria. For the year ended 31 December 2018 Directors' remunerations were EUR 58 thousand, including social securities in the amount of EUR 5 thousand (2017: EUR 59 EUR thousand, including social securities in the amount of 6 EUR thousand).

15. Earnings per share

Basic earnings per share amounts are calculated by dividing the profit for the year by the weighted average number of ordinary shares outstanding during the year.

On 20 April 2018 the Board of directors of the Fund took a decision for increase of share capital. On 6 November 2018, the registration of the Commercial Register with the Registry Agency was successfully completed, as a result of which the Fund's share capital was increased to EUR 17,712,135 divided into 34,641,925 ordinary voting shares with a nominal value of EUR 0.511 each.

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15. Earnings per share (continued)

On 22 February 2016 following a decision of the General Meeting of the Shareholders of the Fund, the nominal value of the issued shares was increased to EUR 1.53 and their number was reduced to 20,150 thousand. For the purposes of calculation of earnings per share for 2017 and 2016, the number of ordinary shares outstanding before the event was adjusted for the proportionate change in the number of ordinary shares outstanding as if the event had occurred at the beginning of the earliest period presented.

The following reflects the income and share data used in the basic earnings per share computations:

	<u>2018</u>	<u>2017</u>
	<i>EUR thousand</i>	<i>EUR thousand</i>
Profit for the year	3,281	2,742
Adjusted weighted average number of ordinary shares (in thousand)	<u>22,373</u>	<u>20,150</u>
Basic earnings per share (in Euro)	<u>€ 0.147</u>	<u>€ 0.136</u>

There have been no other transactions involving ordinary shares or potential ordinary shares between 31 December 2018 and the date these financial statements have been authorised for issue.

16. Commitments

Commitments under construction agreements

In accordance to the budget related to the construction of investment property, the value of the construction work is expected to amount to EUR 33 mil.

Operating lease commitments – Fund as a lessor

Lease of commercial properties (investment properties)

The Fund has entered into two commercial property leases. These leases had initial term of 10 years. The lease agreements include a clause to enable upward revision of the rental charge according to prevailing market conditions. The leases have terms of renewal and sale whereas the Fund is obliged to offer these first to the lessee at market conditions. In 2012 the Fund signed new annexes to the lease agreements prolonging the operating lease agreements' term up to 31 December 2021 (or with 5 more years). To secure its receivables under the lease agreements the Fund has received one year revolving guarantees for good performance from the lessee in the amount 90% of five monthly lease payments.

Future minimum rentals receivable under non-cancellable operating leases as at 31 December are as follows:

	<u>2018</u>	<u>2017</u>
	<i>EUR thousand</i>	<i>EUR thousand</i>
Within one year	1,122	1,154
After one year but not more than five years	<u>2,295</u>	<u>3,483</u>
	<u>3,417</u>	<u>4,637</u>

In the calculation are included the agreed non-cancellable annual indexations on the rent with clients.

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16. Commitments (continued)

Operating lease commitments – Fund as a lessor (continued)

Leasing of office properties (investment properties)

After the purchase of two investment properties representing an office building, the Fund has taken over/ entered into lease agreements for office space with an initial period of up to six years. The lease agreements include various options for termination, increase of the lease payments and provisions for renewal of the lease term. In 2015 the Fund has entered into annexes for extension of the period in regards to two of the lease agreements until 31 October 2019 and 31 May 2021. The Fund's receivables under the main lease agreements are secured by bank guarantees or deposits received covering two to three gross monthly rents and service charges.

In 2017 the Fund signed an annexes to one of the lease agreements for prolonging the operating lease agreements' term and increase in the monthly rent.

In 2018 the Fund signed two new lease agreements with term of 5 years. Further, additional parking slots and office spaces were leased to existing lessees.

As at 31 December, the future minimum lease payments are presented below:

	<u>2018</u>	<u>2017</u>
	<i>EUR thousand</i>	<i>EUR thousand</i>
Within one year	2,153	2,237
After one year but not more than five years	4,225	5,602
More than five years	<u>52</u>	<u>31</u>
	<u>6,430</u>	<u>7,870</u>

In these calculations are not included the expected future contracts for operating leases in the investment property in Sofia Tech Park, which construction will start in 2019 and for which the Fund expects to start to signed preliminary contracts in the period 2019 – 2020.

The current and future receivables of the Fund under operating lease agreements related to the investment property constructed in 2016 are pledged as a security for a bank loan, as disclosed in Note 11.

Lease of agricultural and non-agricultural land (investment properties)

The Fund has entered into operating lease agreements of agricultural and non-agricultural land. These leases have terms between 1 and 10 years.

Future minimum rentals receivable under non-cancellable operating leases of agricultural land as at 31 December are as follows:

	<u>2018</u>	<u>2017</u>
	<i>EUR thousand</i>	<i>EUR thousand</i>
Within one year	6	6
After one year but not more than five years	15	15
More than five years	<u>2</u>	<u>7</u>
	<u>23</u>	<u>28</u>

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17. Financial risk management objectives and policies

The structure of the financial assets and liabilities is as follows:

	<i>31.12.2018</i>
	<i>EUR '000</i>
<i>Financial assets</i>	
Financial assets at amortised cost	16,007
<i>Receivables (Note 8)</i>	<i>186</i>
<i>Cash and cash equivalents (Note 9)</i>	<i>15,821</i>
Total financial assets	16,007
<i>Financial liabilities</i>	
Financial liabilities at amortised cost	4,984
<i>Long term bank loans (Note 11)</i>	<i>4,612</i>
<i>Trade and other liabilities (Note 14)</i>	<i>372</i>
Total financial liabilities	4,984

The structure of the financial assets and liabilities as at 31.12.2017 is as follows:

	<i>31.12.2017</i>
	<i>EUR '000</i>
<i>Financial assets</i>	
Financial assets at amortised cost	1,818
<i>Receivables (Note 8)</i>	<i>75</i>
<i>Cash and cash equivalents (Note 9)</i>	<i>1,744</i>
Total financial assets	1,818
<i>Financial liabilities</i>	
Financial liabilities at amortised cost	5,898
<i>Long term bank loans (Note 11)</i>	<i>5,191</i>
<i>Trade and other liabilities (Note 14)</i>	<i>707</i>
Total financial liabilities	5,898

The Fund is exposed to different risks - market risk on investment properties, interest rate risk, credit risk, liquidity risk and currency risk arising from the financial instruments and investment properties it holds.

The Fund has investment guidelines that set out its overall business strategies, its tolerance for risk and its general risk management philosophy and has established processes to monitor and control investment transactions in a timely and accurate manner. These guidelines are reviewed annually by the Board of Directors and weekly reviews are undertaken to ensure that the Fund's guidelines are adhered to.

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17. Financial risk management objectives and policies (continued)

Market risk on investment properties

The Fund's investment properties are susceptible to market price risk arising from uncertainties about future prices. The positions held by the Fund at the year end, major assumptions used in fair value estimates and related sensitivity analyses are disclosed in Note 6.

Interest rate risk

The Fund's exposure to the risk of changes in market interest rates relates primarily to its debt obligations with floating interest rates. The Fund's policy is to manage its interest cost through continuous negotiations with financial institutions (banks) aimed at achieving the most favourable terms and conditions that are on offer.

The table below provides analysis of the sensitivity to possible changes in interest rates with their effect on the profit for the period (through the effect on loans and borrowings with floating interest rates), provided that all other variables are assumed to be constant. There is no effect on the other components of equity of the Fund.

	<u>Increase/decrease in points basis</u>	<u>Effect on profit</u> <i>EUR thousand</i>
2018		
Loans in BGN	+100	(46)
Loans in BGN	-100	46

	<u>Increase/decrease in points basis</u>	<u>Effect on profit</u> <i>EUR thousand</i>
2017		
Loans in BGN	+100	(52)
Loans in BGN	-100	52

Liquidity risk

The investments in deposits are realizable on demand. The Fund has entered into long-term lease contracts with creditworthy tenants and monitors closely timely collection of related receivables. For investment projects the management considers various ways of attracting capital.

The table below summarizes the maturity profile of the Fund's financial liabilities at 31 December based on contractual undiscounted payments.

As of 31 December 2018	<u>On demand</u> <i>EUR thousand</i>	<u>Less than 3 months</u> <i>EUR thousand</i>	<u>3 to 12 months</u> <i>EUR thousand</i>	<u>1 to 5 years</u> <i>EUR thousand</i>	<u>> 5 years</u> <i>EUR thousand</i>	<u>Total</u> <i>EUR thousand</i>
Investment bank loan with maximum permitted limit of BGN 11,000 thousand	-	185	554	2,952	1,476	5,167
Trade and other payables	168	204	-	-	-	372
	<u>168</u>	<u>389</u>	<u>554</u>	<u>2,952</u>	<u>1,476</u>	<u>5,539</u>

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17. Financial risk management objectives and policies (continued)

Liquidity risk (continued)

The table below summarizes the maturity profile of the Fund's financial liabilities at 31 December based on contractual undiscounted payments.

As of 31 December 2018	<u>On demand</u>	<u>Less than 3</u>	<u>3 to 12</u>	<u>1 to 5</u>	<u>> 5 years</u>	<u>Total</u>
	<i>EUR</i>	<i>EUR</i>	<i>EUR</i>	<i>EUR</i>	<i>EUR</i>	<i>EUR</i>
	<i>thousand</i>	<i>thousand</i>	<i>thousand</i>	<i>thousand</i>	<i>thousand</i>	<i>thousand</i>
Investment bank loan with maximum permitted limit of BGN 11,000 thousand	-	185	554	2,952	1,476	5,167
Trade and other payables	168	204	-	-	-	372
	168	389	554	2,952	1,476	5,539
As of 31 December 2017	<u>On demand</u>	<u>Less than 3</u>	<u>3 to 12</u>	<u>1 to 5</u>	<u>> 5 years</u>	<u>Total</u>
	<i>EUR</i>	<i>EUR</i>	<i>EUR</i>	<i>EUR</i>	<i>EUR</i>	<i>EUR</i>
	<i>thousand</i>	<i>thousand</i>	<i>thousand</i>	<i>thousand</i>	<i>thousand</i>	<i>thousand</i>
Investment bank loan with maximum permitted limit of BGN 11,000 thousand	-	185	524	2,952	2,214	5,905
Trade and other payables	107	590	9	-	-	706
	107	775	563	2,952	2,214	6,611

Foreign currency risk

The Fund's exposure to foreign currency risk is minimal due to the fact that the majority of foreign currency transactions relating to rental contracts are denominated in euro, which is currently fixed at BGN 1.95583 for 1 EUR.

Credit risk

Credit risk is the risk that an issuer or counterparty will be unable to meet the commitments that it has entered into with the Fund. It is the Fund's policy to enter into financial instruments with a diversity of creditworthy counterparties. In order to secure its receivables on contracts for rent of commercial and office properties, the Fund requires its tenants to provide deposits or bank guarantees. In addition, rental income receivable balances are monitored on an ongoing basis with the result that the Fund's exposure to bad debts is minimized as much as possible.

The Fund's maximum exposure to credit risk in the event the counterparties fail to perform their obligations as at 31 December 2018 in relation to each class of recognized financial assets is the carrying amount of those assets as indicated in the statement of financial position.

Allowance for expected credit losses on trade receivables

The Fund uses matrix for calculation of the allowance for ECL for trade receivables. The percentages in the matrix are based on the days overdue of trade receivables.

17. Financial risk management objectives and policies (continued)

Credit risk (continued)

Allowance for expected credit losses on trade receivables (continued)

The matrix is based on the historical days overdue of the Fund. The Fund adjusted the percentages with forward looking information. For example, if the forward looking information (e.g. gross domestic product) is expected to decline in next year, this might reflect into higher number of overdues in the production sector, thus the historical information is adjusted. The historical rates are reviewed and adjusted at each reporting date and changes in the estimated are reviewed.

Considering, the short-term maturity of the receivables (up to 365 days) and the international institutions 2019 forecast (EC, IMF, World bank) for Bulgarian and world economy, the management's scenario analysis shows that the effects of the changes in the macroeconomic indicators over the provisional matrix are immaterial as at 31.12.2018. The expected credit losses are calculated at each reporting date. They were initially calculated as at 01.01.2018 and updated as at 31.12.2018.

The main credit risk to which the Fund is exposed related to other financial assets (different from trade receivables) arises from deposits in bank institutions. In order to manage the credit risk, the Fund works only with accredited bank institutions, with high credit ratings. As of 31 December 2018 the cash and long-term deposits of the Fund are deposited in banks with the following credit rating:

	<u>EUR thousand</u>	<u>Credit Rating</u>
Bank 1	15,810	BBB-
Bank 2	12	BBB

Capital management

The primary objective of the Fund's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to maximize its shareholders' value.

The Fund manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Fund issues new shares, borrows or repays bank loans. The Fund monitors its market capitalization which has direct impact on its shareholders value. It also monitors total equity and long-term and short-term debt, equity to debt ratio and investment properties to equity ratio.

	<u>2018</u>	<u>2017</u>
	<u>EUR</u>	<u>EUR</u>
	<u>thousand</u>	<u>thousand</u>
Share capital	17,712	30,907
Share premium	30,361	3,245
Retained earnings	5,499	3,983
Total equity	<u>53,572</u>	<u>38,135</u>
Investment properties, including held for sale	44,315	42,612
Long-term interest bearing loans (long and short-term portion)	4,612	5,191
Equity to long-term debt	11.61	7.35
Investment properties, including held for sale to equity	0.83	1.12
Market capitalization	33,653	22,913

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18. Fair value measurement

The following table provides the fair value measurement hierarchy of the Fund's assets and liabilities as of 31 December 2018.

	Date of valuation	Fair value measurement using			
		Book value	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)
		<i>EUR thousand</i>	<i>EUR thousand</i>	<i>EUR thousand</i>	<i>EUR thousand</i>
Assets measured at fair value:					
Investment properties (Note 6.1)					
Commercial properties	31.12.2018	11,735	-	-	11,735
Non-agricultural lands	31.12.2018	5,077	-	-	5,077
Properties under construction	31.12.2018	5,414	-	-	5,414
Office properties	31.12.2018	21,107	-	-	21,107
Agricultural lands	31.12.2018	256	-	-	256
Investment properties held for sale (Note 6.2)					
Vacation properties	31.12.2018	726	-	-	726
Liabilities for which fair values are disclosed:					
Interest-bearing loans and borrowings (Note 11)					
Floating rate borrowings	31.12.2018	4,612	-	4,612	-

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18. Fair value measurement (continued)

The following table provides the fair value measurement hierarchy of the Fund's assets and liabilities as of 31 December 2017.

	Date of valuation	Fair value measurement using			
		Book value	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)
		<i>EUR thousand</i>	<i>EUR thousand</i>	<i>EUR thousand</i>	<i>EUR thousand</i>
Assets measured at fair value:					
Investment properties (Note 6.1)					
Commercial properties	31.12.2017	11,592	-	-	11,592
Non-agricultural lands	31.12.2017	5,306	-	-	5,306
Properties under construction	31.12.2017	5,008	-	-	5,008
Office properties	31.12.2017	19,676	-	-	19,676
Agricultural lands	31.12.2017	248	-	-	248
Investment properties held for sale (Note 6.2)					
Vacation properties	31.12.2017	782	-	-	782
Liabilities for which fair values are disclosed:					
Interest-bearing loans and borrowings (Note 11)					
Floating rate borrowings	31.12.2017	5,191	-	5,191	-

In 2018 and 2017 there have been no transfers between the levels of the fair value measurement hierarchy.

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18. Fair value measurement (continued)

Fair value of financial instruments

Set out below is a comparison by category of carrying amounts and fair values of all of the Fund's financial instruments that are carried in the financial statements:

	<i>Carrying amount</i>		<i>Fair value</i>	
	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
	<i>EUR</i>	<i>EUR</i>	<i>EUR</i>	<i>EUR</i>
	<i>thousand</i>	<i>thousand</i>	<i>thousand</i>	<i>thousand</i>
<i>Financial assets</i>				
Trade and other receivables	186	75	186	75
Cash and short-term deposits	15,822	1,744	15,822	1,744
<i>Financial liabilities</i>				
Long-term interest bearing loans	4,612	5,191	4,612	5,191
Trade payables	372	706	372	706

The fair value of the financial assets and liabilities is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The following methods and assumptions were used to estimate the fair values:

- The fair value of cash and short-term deposits, trade receivables, trade payables, and other current assets and liabilities approximate their carrying amounts due to the short-term maturities of these instruments;
- The fair value of floating rate loans is estimated by discounting future cash flows using rates currently available for debt or similar terms and remaining maturities. The fair value approximates their carrying values gross of unamortized transaction costs. The own non-performance risk is assessed to be insignificant.
- The fair value of long-term interest-free liabilities is determined by discounting the expected future cash flows using current market interest rates. As of 31 December 2018, the carrying value of long-term financial liabilities does not differ significantly from the estimated fair value.

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