



Bulgarian Real Estate Fund ADSIC

ANNUAL FINANCIAL STATEMENTS

31 December 2014

BULGARIAN REAL ESTATE FUND ADSIC

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BULGARIAN REAL ESTATE FUND ADSIC

General Information

Directors

Todor Breshkov, Chairman of the Board of Directors
Mario Al-Jebouri, Deputy Chairman of the Board of Directors
Chavdar Donkov, Member of the Board of Directors
Nikolay Skarlatov, Executive Director

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

Auditor

Ernst & Young Audit OOD
Polygraphia Office Center
47A, Tsarigradsko Shose Blvd., fl.4
1124 Sofia, Bulgaria

Independent auditors' report

To the shareholders

of Bulgarian Real Estate Fund ADSIC

We have audited the accompanying financial statements of Bulgarian Real Estate Fund ADSIC, which comprise the statement of financial position as of 31 December 2014, and the income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

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

Auditors' responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of financial statements that give a true and fair view 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of Bulgarian Real Estate Fund ADSIC as of 31 December 2014, and of its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards, as adopted for use in the European Union.


Ernst & Young Audit OOD

Sofia, Bulgaria

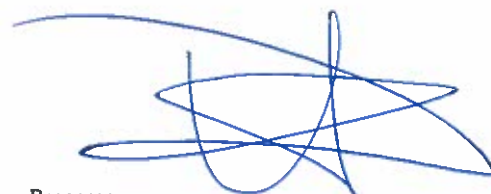
30 March 2015

BULGARIAN REAL ESTATE FUND ADSIC
INCOME STATEMENT
For the year ended 31 December 2014

	Notes	2014 <i>EUR thousand</i>	2013 <i>EUR thousand</i>
Income			
Rental and service charge income	5.1	1,550	1,100
Interest income		190	742
Gain on derivative financial instrument	12	83	126
Income from sale of investment property		41	-
Net gains from fair value adjustments to investment properties	6.1, 6.2	-	39
Other income	5.3	46	48
Total income		1,910	2,055
Expenses			
Net losses from fair value adjustments to investment properties	6.1, 6.2	(2,369)	-
Management fees	16.1	(543)	(553)
Direct operating expenses arising from properties	5.4	(470)	(301)
Interest expenses		(141)	(182)
Carrying amount of sold property		(54)	-
Directors' remunerations and Board expenses	16.2	(50)	(46)
Employee benefit costs		(25)	(13)
Other expenses	5.5	(151)	(98)
Total expenses		(3,803)	(1,193)
(Loss)/ Profit for the year		(1,893)	862
Earnings per share – basic and diluted	17	(0.031)	0.014
Dividend per share, gross	14	0	0.012



Executive Director
Nikolay Skarlatov

Preparer
Alexander Georgiev

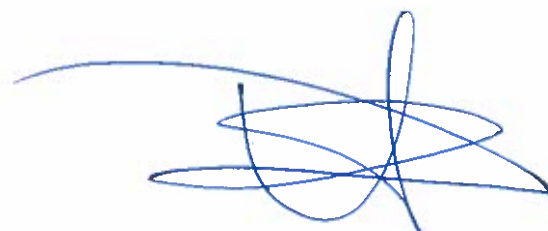
The accompanying notes to the financial statements on pages 8 to 42 form an integral part of these financial statements.

BULGARIAN REAL ESTATE FUND ADSIC
STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31 December 2014

	<u>2014</u>	<u>2013</u>
	<i>EUR thousand</i>	<i>EUR thousand</i>
(Loss)/ Profit for the year	<u>(1,893)</u>	<u>862</u>
Other comprehensive income for the year	<u>-</u>	<u>-</u>
Total comprehensive income for the year	<u>(1,893)</u>	<u>862</u>



Executive Director
Nikolay Skarlatov



Preparer
Alexander Georgiev

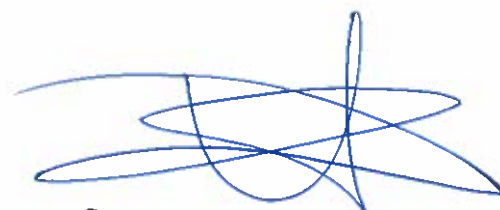
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BULGARIAN REAL ESTATE FUND ADSIC
STATEMENT OF FINANCIAL POSITION
As at 31 December 2014

	Notes	2014 EUR thousand	2013 EUR thousand
ASSETS			
Non-current assets			
Investment property	6.1	31,202	25,417
Restricted cash	9, 13	360	-
Intangible assets		2	-
Equipment		1	2
		<u>31,565</u>	<u>25,419</u>
Current assets			
Investment property held for sale	6.2	827	1,210
Trade and other receivables	8	47	147
Deferred expenses	7	12	5
Cash and cash equivalents	9	4,229	13,073
		<u>5,115</u>	<u>14,435</u>
TOTAL ASSETS		<u>36,680</u>	<u>39,854</u>
Equity			
Share capital	10.1	30,907	30,907
Share premium	10.2	5,016	5,016
(Accumulated losses)/ Retained earnings		(1,771)	122
Total equity		<u>34,152</u>	<u>36,045</u>
Non-current liabilities			
Long-term interest bearing loans	11	960	1,864
Derivative financial liability	12	81	164
Other long-term liability	13	283	-
		<u>1,324</u>	<u>2,028</u>
Current liabilities			
Current portion of long-term interest bearing loans	11	915	867
Trade and other payables	15	289	174
Provision for dividends due	14	-	740
		<u>1,204</u>	<u>1,781</u>
Total liabilities		<u>2,528</u>	<u>3,809</u>
TOTAL EQUITY AND LIABILITIES		<u>36,680</u>	<u>39,854</u>


Executive Director
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Preparer
Alexander Georgiev

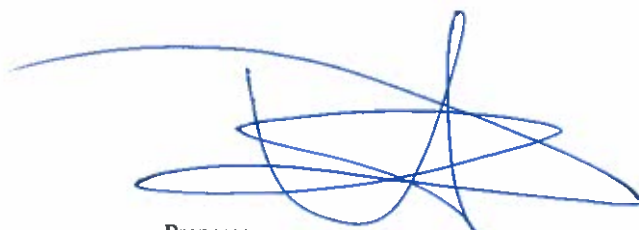
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BULGARIAN REAL ESTATE FUND ADSIC
STATEMENT OF CHANGES IN EQUITY
For the year ended 31 December 2014

	Share capital (Note 10.1) <i>EUR thousand</i>	Share premium (Note 10.2) <i>EUR thousand</i>	Retained Earnings/ (Accumulated Losses) <i>EUR thousand</i>	Total <i>EUR thousand</i>
At 1 January 2013	30,907	5,016	1,083	37,006
Profit for the year	-	-	862	862
Other comprehensive income	-	-	-	-
Total comprehensive income	-	-	862	862
Equity dividends (Note 14)	-	-	(1,823)	(1,823)
At 31 December 2013	30,907	5,016	122	36,045
At 1 January 2014	30,907	5,016	122	36,045
Loss for the year	-	-	(1,893)	(1,893)
Other comprehensive income	-	-	-	-
Total comprehensive income	-	-	(1,893)	(1,893)
At 31 December 2014	30,907	5,016	(1,771)	34,152



Executive Director
Nikolay Skarlatov

Preparer
Alexander Georgiev

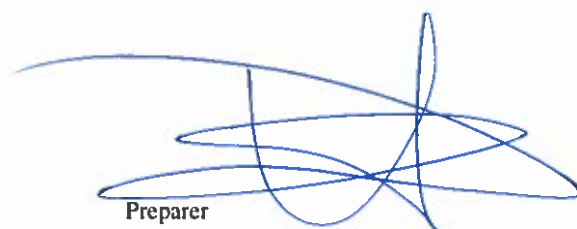
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BULGARIAN REAL ESTATE FUND ADSIC
STATEMENT OF CASH FLOWS
For the year ended 31 December 2014

	Notes	2014 <i>EUR</i> <i>thousand</i>	2013 <i>EUR</i> <i>thousand</i>
CASH FLOWS FROM OPERATING ACTIVITIES			
(Loss)/ Profit for the year		(1,893)	862
Adjustments to reconcile (loss)/profit for the year to net cash			
Non-cash:			
Net losses/ (gains) from fair value adjustments to properties	6.1, 6.2	2,369	(39)
Interest income		(190)	(742)
Interest expense		141	182
Gain on derivative financial instrument	12	(83)	(126)
Loss from sale of investment property		13	-
Write off of properties	5.5	-	7
Depreciation expense	5.5	1	2
Net movement in impairment of receivables	5.3	(1)	(18)
Release of accruals for liabilities	5.3	(2)	(22)
Write off of receivables	5.5	57	-
Working capital adjustments:			
(Increase)/Decrease in trade and other receivables		(28)	40
Increase/(Decrease) in trade and other payables		122	(13)
Net cash flows from operating activities		<u>506</u>	<u>133</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of properties		(7,545)	-
Purchase of intangible assets		(2)	-
Purchase of equipment		-	(1)
Opened long-term deposits	9, 13	(360)	-
Proceeds from sale of investment property		41	-
Interest received		254	1,098
Net cash flows (used in)/from investing activities		<u>(7,612)</u>	<u>1,097</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
Repayment of borrowings		(861)	(813)
Interest paid		(133)	(182)
Equity dividends paid		(744)	(2,013)
Net cash flows used in financing activities		<u>(1,738)</u>	<u>(3,008)</u>
Net decrease in cash and cash equivalents		(8,844)	(1,778)
Cash and cash equivalents at 1 January		13,073	14,851
Cash and cash equivalents at 31 December	9	<u>4,229</u>	<u>13,073</u>


Executive Director
Nikolay Skarlatov




Preparer
Alexander Georgiev

The accompanying notes to the financial statements on pages 8 to 42 from an integral part of these financial statements.

BULGARIAN REAL ESTATE FUND ADSIC
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2014

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 is 15 years and expires in 2019. This term can be extended by shareholders' decision.

The registered office of the Fund is located at 3A Nikolay Haytov Str., fl 1, Sofia, Bulgaria.

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 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 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 four directors. The Fund's operations are managed by a management company, a related party, in accordance with the requirements of ASIPC and management agreement as disclosed in Note 16 below.

These financial statements for the year ended 31 December 2014 were authorized for issue in accordance with a resolution of the Board of Directors on 30 March 2015.

2.1. Basis of preparation

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

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

Statement of compliance

The financial statements of Bulgarian Real Estate Fund have been prepared in accordance with the International Financial Reporting Standards (IFRS), as adopted for use in the European Union (EU).

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. The statutory financial statements were authorized for issue by the Board of Directors on 30 March 2015.

BULGARIAN REAL ESTATE FUND ADSIC
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2014

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. Non monetary 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 recognition

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. The Fund assesses its revenue arrangements against specific criteria in order to determine whether it is acting as a principal or agent. 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. 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. Thus, the Fund presents the expenses related to provision of electricity, water and heating, net of the re-invoiced amounts received from tenants. The following specific recognition criteria must also be met before revenue is recognised:

Sale of properties

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).

Interest income

Revenue is recognised as interest accrues (using the effective interest method that is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset).

Rental 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.

Revenue from service charge

Revenue from service charge payable by the tenants is recognized in the period in which the consideration becomes due, based on the stage of completion at the reporting date. 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.

BULGARIAN REAL ESTATE FUND ADSIC
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2014

2.2. Summary of the significant accounting policies (continued)

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.

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.

g) Financial instruments – recognition and measurement

• **Financial assets**

Initial recognition

Financial assets within the scope of IAS 39 are classified as either financial assets at fair value through profit or loss, loans and receivables, held to maturity investments, available for sale financial assets, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial assets are recognised initially at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

All regular way purchases and sales of financial assets are recognised on the trade date, which is the date that the Fund commits to purchase the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

The Fund's financial assets include cash, long-term financial assets and short-terms deposits and trade and other receivables.

2.2. Summary of the significant accounting policies (continued)

g) Financial instruments – recognition and measurement (continued)

- **Financial assets (continued)**

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement loans and receivables are subsequently carried at amortised cost using the effective interest method less impairment. Amortised cost is calculated taking into account any discount or premium on acquisition and fee or costs that are an integral part of the effective interest rate. Gains and losses are recognised in the income statement when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Derecognition

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised when:

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

Where the Fund has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Fund's continuing involvement in the asset. 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.

Where continuing involvement takes the form of a written and/or purchased option (including a cash settled option or similar provision) on the transferred asset, the extent of the Fund's continuing involvement is the amount of the transferred asset that the Fund may repurchase, except that in the case of a written put option (including a cash settled option or similar provision) on an asset measured at fair value, the extent of the Fund's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Impairment of financial assets

The Fund assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

2.2. Summary of the significant accounting policies (continued)

g) Financial instruments – recognition and measurement (continued)

- **Financial assets (continued)**

Impairment of financial assets (continued)

Assets carried at amortised cost

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced through use of an allowance account. The amount of the loss shall be recognised in the income statement.

The Fund first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in profit or loss, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

- **Financial liabilities**

Initial recognition

Financial liabilities within the scope of IAS 39 are classified as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Fund determines the classification of its financial liabilities at initial recognition.

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

The Fund's financial liabilities include trade payables, interest bearing loans and derivative financial instruments.

Subsequent measurement

The measurement of financial liabilities depends on their classification as follows:

Loans and borrowings

After initial recognition, interest bearing loans and borrowings are subsequently measured at amortised cost using the effective interest rate method. Gains and losses are recognised in the income statement when the liabilities are derecognised as well as through the effective interest rate method amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fee or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in interest expenses in the income statement.

BULGARIAN REAL ESTATE FUND ADSIC
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2014

2.2. Summary of the significant accounting policies (continued)

g) Financial instruments – recognition and measurement (continued)

• **Financial liabilities (continued)**

Subsequent measurement (continued)

Financial liabilities at fair value through profit or loss

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

Financial liabilities are classified as held for trading if they are acquired for the purpose of selling in the near term. Derivatives, including separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on liabilities held for trading are recognised in the income statement.

Where a contract contains one or more embedded derivatives, the entire hybrid contract may be designated as a financial liability at fair value through profit or loss, except where the embedded derivative does not significantly modify the cash flows or it is clear that separation of the embedded derivative is prohibited.

Financial liabilities may be designated at initial recognition as at fair value through profit or loss if the following criteria are met: (i) the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the liabilities or recognising gains or losses on them on a different basis; (ii) or the liabilities are part of a Fund of financial liabilities which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management strategy; (iii) or the financial liability contains an embedded derivative that would need to be separately recorded. As at 31 December 2014, no financial liabilities have been designated as at fair value through profit and loss (2013: Nil).

Derecognition

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

Where 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 a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the income statement.

h) Derivative financial instruments

The Fund uses derivative financial instruments such as interest rate swaps to hedge its risks associated with interest rate. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Any gains or losses arising from changes in fair value on derivatives during the year are taken directly to the income statement.

Details on the fair value estimate of interest rate swap contracts are provided in Note 20.

2.2. Summary of the significant accounting policies (continued)

i) 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.

j) Fair value measurement

The Fund measures its financial instruments, such as, derivatives, as well as investment properties and investment properties held for sale at fair value at each balance sheet date. Fair values of financial instruments measured at amortised cost are disclosed in Note 20.

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.

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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) 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.

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 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.

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.

m) Trading properties

Trading properties (inventories) are valued at lower of cost and net realizable value. The cost is determined based on specific identification of individual project costs. Net realizable value is the estimated selling price in the ordinary course of business less estimated cost of completion and the estimated cost necessary to make the sale.

2.2. Summary of the significant accounting policies (continued)

n) 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.

o) 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.

p) 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:

	2014	2013
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 net disposal proceeds and the carrying amount of the asset) 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 2014 and 2013 the Fund did not report any significant items of equipment.

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2.2. Summary of the significant accounting policies (continued)

q) Intangible Assets

Intangible assets are initially measured at cost. After initial recognition, intangible assets are carried at cost less accumulated depreciation and accumulated impairment losses.

Intangible assets with limited useful lives are amortized over their useful lives and tested for impairment whenever there are indications that their value is impaired. At least at the end of each financial year, a review of the useful lives and methods of amortization of intangible assets with limited useful lives is carried out. Changes in the expected useful life or pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortization period or method and are treated as changes in accounting estimates.

The useful lives of intangible assets are assessed as limited as follows:

	<u>2014</u>	<u>2013</u>
Software	2 years	2 years

Gains or losses arising from derecognition of an intangible asset, representing the difference between the net disposal proceeds, if any, and the carrying value of the asset are included in the income statement when the asset is derecognised.

For 2014 and 2013 the Fund did not report any significant intangible assets.

r) Impairment of non-financial assets

The Fund assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Fund makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset or cash-generating unit exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used. These calculations are corroborated by valuation multiples or available fair value indicators.

Impairment losses are recognized as other expenses in the income statement.

For non-financial assets, an assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Fund makes an estimate of recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the income statement.

s) 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.

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

2.2. Summary of the significant accounting policies (continued)

t) 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.

The management has analysed the obligation for dividend distribution from economical and legal perspective. As of 31 December 2014, the Fund did not recognise provision for dividends due. Additional details are provided in Note 14.

2.3 Changes in accounting policy and disclosures

New and amended standards and interpretations

The accounting policies adopted are consistent with those of the previous financial year. The following amended IFRSs and IFRIC Interpretations have been adopted by the Company as of 1 January 2014:

- *IAS 28 Investments in Associates and Joint Ventures (Revised)*
- *IAS 32 Financial Instruments: Presentation (Amended) - Offsetting Financial Assets and Financial Liabilities*
- *IFRS 10 Consolidated Financial Statements, IAS 27 Separate Financial Statements*
- *IFRS 11 Joint Arrangements*
- *IFRS 12 Disclosures of Interests in Other Entities*
- *IAS 39 Financial Instruments (Amended): Recognition and Measurement - Novation of Derivatives and Continuation of Hedge Accounting*
- *IAS 36 Impairment of Assets (Amended) – Recoverable Amount Disclosures for Non-Financial Assets*
- *IFRIC Interpretation 21: Levies*

When adoption of the standard or interpretation is deemed to have an impact on the financial statements or performance of the Fund, its impact is described below:

IAS 28 Investments in Associates and Joint Ventures (Revised)

As a consequence of the new IFRS 11 and IFRS 12, IAS 28 has been renamed to Investments in Associates and Joint Ventures. IAS 28 describes the application of the equity method to investments in joint ventures in addition to associates. The application of this revision will not affect the financial position or performance of the Fund.

IAS 32 Financial Instruments: Presentation (Amended) - Offsetting Financial Assets and Financial Liabilities

This amendment clarifies the meaning of “currently has a legally enforceable right to set-off” and the application of the IAS 32 offsetting criteria to settlement systems. The amendment has no impact over the Fund’s financial position or performance.

2.3 Changes in accounting policy and disclosures (continued)

New and amended standards and interpretations (continued)

IFRS 10 Consolidated Financial Statements, IAS 27 Separate Financial Statements (Revised)

IFRS 10 replaces the portion of IAS 27 Consolidated and Separate Financial Statements that addresses the accounting for consolidated financial statements. It also addresses the issues raised in SIC-12 Consolidation — Special Purpose Entities. IFRS 10 establishes a single control model that applies to all entities including special purpose entities. The changes introduced by IFRS 10 will require management to exercise significant judgment to determine which entities are controlled and therefore are required to be consolidated by a parent, compared with the requirements that were in IAS 27. The application of this revision will not affect the financial position or performance of the Fund.

IFRS 11 Joint Arrangements

IFRS 11 replaces IAS 31 Interests in Joint Ventures and SIC-13 Jointly-controlled Entities — Non-monetary Contributions by Venturers. IFRS 11 changes the accounting for joint arrangements by moving from three categories under IAS 31 to the following two categories – joint operation and joint venture. Joint ventures are accounted for using the equity method. The option in IAS 31 to account for joint ventures (as defined in IFRS 11) using proportionate consolidation has been removed. The application of the new standard will not affect the financial position or performance of the Fund.

IFRS 12 Disclosures of Interests in Other Entities

IFRS 12 includes all of the disclosures that were previously in IAS 27 related to consolidated financial statements, as well as all of the disclosures that were previously included in IAS 31 and IAS 28. These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. A number of new and more extensive qualitative and quantitative disclosures are also required. The new disclosures required by IFRS 12 are not applicable for the financial position or performance of the Fund.

IAS 39 Financial Instruments: Recognition and Measurement (Amended) - Novation of Derivatives and Continuation of Hedge Accounting

Under the amendment there would be no need to discontinue hedge accounting if a hedging derivative was novated, provided certain criteria are met. The amendment has no impact over the Fund's financial position or performance.

IAS 36 Impairment of Assets (Amended) – Recoverable Amount Disclosures for Non-Financial Assets

This amendment removes the unintended consequences of IFRS 13 on the disclosures required under IAS 36. In addition, these amendments require disclosure of the recoverable amounts for the assets or CGUs for which impairment loss has been recognised or reversed during the period. The amendment has no impact over the Fund's financial position or performance

IFRIC Interpretation 21: Levies

IFRIC 21 clarifies that an entity recognises a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. For a levy that is triggered upon reaching a minimum threshold, the interpretation clarifies that no liability should be anticipated before the specified minimum threshold is reached. The application of the interpretation will not affect the financial position or performance of the Fund.

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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:

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 18.

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, I) 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 except 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. After an analysis of the ancillary services offered to the tenants of the office buildings acquired in 2014, the Fund has determined that they are not significant and represent a minor component of the overall agreement. Therefore, the Fund recorded the acquired during 2014 office buildings as asset acquisitions within the scope of IAS 40 Investment Property and applied the accounting policies for investment properties presented in Note 2.2. I).

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 adjusted under the requirements of the law net profits. The management has analysed the obligation for dividend distribution from economical and legal perspective and as a result, the Fund did not recognise provision for dividends due as of 31 December 2014 (2013: EUR 740 thousand). Additional details are provided in Note 14.

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.

Impairment of receivables

Management maintains an allowance for impairment of receivables to account for estimated losses resulting from the inability of customers to make required payments. When evaluating the adequacy of the impairment of receivables, management bases its estimates on the ageing of accounts receivable, specific economic conditions of the customer, its credit worthiness and changes in customer payment terms. If the financial condition of customers were to deteriorate, actual write-offs might be higher than expected. As of 31 December 2014 the best estimate of the impairment of receivables is EUR 37 thousand (2013: EUR 346 thousand). Further details are provided in Note 8.

Fair Value of Investment Properties

The investment properties and properties held for sale have been fair valued by 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.

IAS 16 Property, Plant and Equipment and IAS 38 Intangible assets (Amendments): Clarification of Acceptable Methods of Depreciation and Amortization

The amendments are effective for annual periods beginning on or after 1 January 2016. They clarify the principle in IAS 16 and IAS 38 that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is part) rather than the economic benefits that are consumed through use of the asset. As a result, the ratio of revenue generated to total revenue expected to be generated cannot be used to depreciate property, plant and equipment or amortise intangible assets. The amendments have not yet been endorsed by the EU. It is not expected that these amendments would be relevant to the Fund.

IAS 16 Property, Plant and Equipment and IAS 41 Agriculture (Amendments): Bearer Plants

The amendments are effective for annual periods beginning on or after 1 January 2016. Bearer plants will now be within the scope of IAS 16 and will be subject to all of the requirements therein. This includes the ability to choose between the cost model and revaluation model for subsequent measurement. Agricultural produce growing on bearer plants (e.g., fruit growing on a tree) will remain within the scope of IAS 41. Government grants relating to bearer plants will now be accounted for in accordance with IAS 20 Accounting for Government Grants and Disclosure of Government Assistance, instead of in accordance with IAS 41. The amendment has not yet been endorsed by the EU. It is not expected that these amendments would be relevant to the Fund.

IAS 19 Employee benefits (Amended): Employee Contributions

The amendment is effective for annual periods beginning on or after 1 February 2015. The amendment applies to contributions from employees or third parties to defined benefit plans. The objective of the amendment is to simplify the accounting for contributions that are independent of the number of years of employee service, for example, employee contributions that are calculated according to a fixed percentage of salary. It is not expected that this amendment would be relevant to the Fund.

IFRS 9 Financial Instruments

The standard is applied for annual periods beginning on or after 1 January 2018 with early adoption permitted. The final phase of IFRS 9 replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. The standard has not yet been endorsed by the EU. The Fund is in the process of assessing the impact of the new standard on its financial position or performance.

IFRS 11 Joint Arrangements (Amendment): Accounting for Acquisitions of Interests in Joint Operations

The amendment is effective for annual periods beginning on or after 1 January 2016. It adds new guidance on how to account for the acquisition of an interest in a joint operation that constitutes a business in accordance with IFRS. The amendment has not yet been endorsed by the EU. It is not expected that this amendment would be relevant to the Fund.

IFRS 10, IFRS 12 and IAS 28: Investment Entities: Applying the Consolidation Exception (Amendments)

The amendments are effective for annual periods beginning on or after 1 January 2016. The amendments clarify that the exemption from presenting consolidated financial statements applies to a parent entity that is a subsidiary of an investment entity, when the investment entity measures all of its subsidiaries at fair value. Also, the amendments clarify that only a subsidiary that is not an investment entity itself and provides support services to the investment entity is consolidated. All other subsidiaries of an investment entity are measured at fair value. The amendments to IAS 28 Investments in Associates and Joint Ventures allow the investor, when applying the equity method, to retain the fair value measurement applied by the investment entity associate or joint venture to its interests in subsidiaries. These amendments have not yet been endorsed by the EU. It is not expected that these amendments would be relevant to the Fund.

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

IAS 1 Presentation of Financial Statements: Disclosure Initiative (Amendment)

The amendments are effective for annual periods beginning on or after 1 January 2016. The amendments to IAS 1 Presentation of Financial Statements further encourage companies to apply professional judgment in determining what information to disclose and how to structure it in their financial statements. They clarify, rather than significantly change, existing IAS 1 requirements. The amendments relate to materiality, order of the notes, subtotals and disaggregation, accounting policies and presentation of items of other comprehensive income (OCI) arising from equity accounted Investments. 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 statements.

IFRS 14 Regulatory Deferral Accounts

The standard is effective for annual periods beginning on or after 1 January 2016. The aim of this interim standard is to enhance the comparability of financial reporting by entities that are engaged in rate-regulated activities, whereby governments regulate the pricing of particular types of activity. This can include utilities such as gas, electricity and water. The standard requires that the effect of rate regulation must be presented separately from other items and grants exemption to IFRS first-time adopters. This standard has not yet been endorsed by the EU. As the Fund has adopted IFRS in prior periods and is not engaged in government regulated activities, it is not expected that the standard would be relevant to the Fund.

IFRS 15 Revenue from Contracts with Customers

The standard is effective for annual periods beginning on or after 1 January 2017. IFRS 15 establishes a five-step model that will apply to revenue earned from a contract with a customer (with limited exceptions), regardless of the type of revenue transaction or the industry. The standard's requirements will also apply to the recognition and measurement of gains and losses on the sale of some non-financial assets that are not an output of the entity's ordinary activities (e.g., sales of property, plant and equipment or intangibles). Extensive disclosures will be required, including disaggregation of total revenue; information about performance obligations and key judgments and estimates. The standard has not been yet endorsed by the EU. The Fund is in the process of assessing the impact of the new standard on its financial position or performance.

IAS 27 Separate Financial Statements (Amended)

The amendment is effective from 1 January 2016. This amendment will allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. This amendment has not yet been endorsed by the EU. As the Fund does not have any investments in subsidiaries, joint ventures and associates, the amendment will not impact its financial position and performance.

Amendments in 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 amendments will be effective from annual periods commencing on or after 1 January 2016. 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.

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

Annual improvements to IFRSs 2010-2012 Cycle

In the 2010-2012 annual improvements cycle, the IASB issued amendments to seven standards which are effective for annual periods beginning on or after 1 February 2015. Summary of amendments and related standards are provided below:

- IFRS 2 Share-based Payments – amended definitions of ‘vesting conditions’ and ‘market condition’ and adding the definitions of ‘performance condition’ and ‘service condition’;
- IFRS 3 Business Combinations – clarification on the accounting for contingent consideration arising from business combination;
- IFRS 8 Operating Segments – additional disclosures of management judgement on aggregating operating segments and clarification on reconciliation of total segments’ assets to the entity’s assets;
- IFRS 13 Fair Value Measurement – clarification on interaction with IFRS 9 as regards short-term receivables and payables;
- IAS 16 Property, Plant and Equipment – amended to state that when an item of property, plant and equipment is revalued, the gross carrying amount is adjusted in a manner that is consistent with the revaluation of the carrying amount while the accumulated depreciation is calculated as a difference between the gross carrying amount and the carrying amount after taking into account accumulated impairment losses;
- IAS 24 Related Party Disclosures – clarified that a management entity that provides key management services to a reporting entity is deemed to be a related party; disclosure of the service fee paid or payable is required;
- IAS 38 Intangible Assets – same amendment as IAS 16 above.

The Fund is in the process of assessing the impact of the amendments on its financial statements.

Annual improvements to IFRSs 2011-2013 Cycle

In the 2011-2013 annual improvements cycle, the IASB issued amendments to four standards which are effective for annual periods beginning on or after 1 January 2015. Summary of amendments and related standards are provided below:

- IFRS 1 First-time Adoption of International Financial Reporting Standards – clarification on the early application of new IFRS that is not yet mandatory;
- IFRS 3 Business Combinations – clarification on scope exclusions regarding the formation of joint arrangement in the financial statements of the joint arrangement itself;
- IFRS 13 Fair Value Measurement – clarification on the application of portfolio exception (measuring fair value of a group of financial assets and financial liabilities on a net basis);
- IAS 40 Investment Property – clarification on the interrelationship between IFRS 3 and IAS 40.

The Fund is in the process of assessing the impact of the amendments on its financial statements.

Annual improvements to IFRSs 2012-2014 Cycle

In the 2012-2014 annual improvements cycle, the IASB issued amendments to four standards which are applicable for financial year 2016. These annual improvements have not yet been endorsed by the EU. Summary of amendments and related standards are provided below:

- IFRS 5 Non-current Assets Held for Sale and Discontinued Operations – clarification that changing from one of the disposal methods to the other (through sale or through distribution to the owners) should not be considered to be a new plan of disposal, rather it is a continuation of the original plan;
- IFRS 7 Financial Instruments: Disclosures – provides examples of continuing involvement in a financial asset and clarifies required disclosures in the condensed interim financial report;
- IAS 19 Employee Benefits – clarification on long-term liability discount rate determination;
- IAS 34 Interim Financial Reporting – clarification on required interim disclosures: they must either be in the interim financial statements or incorporated by cross-reference to other interim financial information (e.g., in the management report) that is available to users on the same terms as the interim financial statements and at the same time.

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. Rental income

	<u>2014</u>	<u>2013</u>
	<i>EUR thousand</i>	<i>EUR thousand</i>
Rental income from investment properties	1,474	1,100
Service charge income	76	-
	<u>1,550</u>	<u>1,100</u>

5.2. Income from external customers

a) Geographical information

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

b) Information for major customers

	<u>Type of income</u>	<u>2014</u>	<u>2013</u>
		<i>EUR thousand</i>	<i>EUR thousand</i>
Customer 1	Rent	1,125	1,095
Customer 2	Rent	167	-
Customer 2	Service charge	42	-

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

	<u>2014</u>	<u>2013</u>
	<i>EUR thousand</i>	<i>EUR thousand</i>
Insurance benefits	39	-
Release of accrued liabilities (Note 15)	2	22
Reversal of impairment of receivables (Note 8)	1	18
Overpaid taxes and penalty claims	-	3
Other	4	5
	<u>46</u>	<u>48</u>

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5. Income and expenses (continued)

5.4. Direct operating expenses arising from properties

	<u>2014</u>	<u>2013</u>
	<i>EUR thousand</i>	<i>EUR thousand</i>
<i>Direct operating expenses arising from properties that generated rental income</i>		
Investment properties	(360)	(161)
	<u>(360)</u>	<u>(161)</u>
<i>Direct operating expenses arising from properties that did not generate rental income</i>		
Investment properties	(89)	(108)
Investment property held for sale	(21)	(32)
	<u>(110)</u>	<u>(140)</u>
Total direct operating expenses arising from properties	<u>(470)</u>	<u>(301)</u>

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

	<u>2014</u>	<u>2013</u>
	<i>EUR thousand</i>	<i>EUR thousand</i>
Repair and maintenance	(221)	(133)
Local taxes and fees	(131)	(103)
Service charge expenses	(81)	-
Fees for sundry services	(33)	(37)
Other	(4)	(28)
	<u>(470)</u>	<u>(301)</u>

5.5. Other expenses

	<u>2014</u>	<u>2013</u>
	<i>EUR thousand</i>	<i>EUR thousand</i>
Write off of receivables (note 8)	(57)	-
Fees for sundry services	(57)	(50)
Movement in accrued expenses on court cases for properties	(18)	(17)
Bank charges	(3)	(2)
Depreciation	(1)	(2)
Properties written off (note 6.1)	-	(7)
Other	(15)	(20)
	<u>(151)</u>	<u>(98)</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 thousand</i>	<i>EUR thousand</i>	<i>EUR thousand</i>	<i>EUR thousand</i>	<i>EUR thousand</i>
At 1 January 2013	94	14,460	10,818	-	25,372
Net gains/ (losses) from fair value adjustments	2	57	(7)	-	52
Written off (Note 5.5)	(7)	-	-	-	(7)
At 31 December 2013	89	14,517	10,811	-	25,417
At 1 January 2014	89	14,517	10,811	-	25,417
Additions	-	8	7,746	71	7,825
Net gains/(losses) from fair value adjustments	63	(1,905)	(173)	-	(2,015)
Disposals	-	(25)	-	-	(25)
At 31 December 2014	152	12,595	18,384	71	31,202

The properties under construction include costs incurred in relation to a contract for development of investment project, research, design and supervision during construction of a new property. The management considers that the cost of Properties under construction as of 31 December 2014 approximates their fair value.

Fair value measurement

The Fund engaged an accredited external valuer to fair value its investment properties. The effective date of the valuations was 31 December 2014. Fair values were estimated by applying the following valuation methods:

- Capitalization of income method was used to value rental generating commercial properties and office buildings with long-term lease arrangements in place.

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% 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). 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.

BULGARIAN REAL ESTATE FUND ADSIC
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6. Properties (continued)

6.1. Investment Property (continued)

Fair value measurement (continued)

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

	2014	2013
	<i>EUR thousand</i>	<i>EUR thousand</i>
Investment properties valued under capitalization of income method	18,384	10,811
Investments properties valued under market comparative method	12,747	14,606
Total investment properties at fair value	31,131	25,417

Significant assumptions used in fair value measurement of investment properties

The significant assumptions used in the valuations of investment properties are set out below:

	<u>Valuation technique</u>	<u>Significant unobservable inputs</u>	<u>2014</u>	<u>2013</u>
Commercial and office properties	Capitalization of income method/ Market comparables method	Gross rental income – EUR per month – commercial property 1	63,595	63,595
		Gross rental income – EUR per month – commercial property 2	44,340	44,340
	Gross rental income – EUR per month – office property 1	75,325	-	
	Vacancy risk - % of gross rent income	10%	10%	
	Capitalization rate (discount rate)	10%	10%	
	Adjustment for illiquidity of the land	-15%	-15%	
	Adjustments for specific input parameters of the land	*	*	
Agricultural lands	Market comparables method	Adjustments for specific input parameters	*	*
Non-agricultural lands	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.

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.

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6. Properties (continued)

6.1. Investment property (continued)

Other disclosures

Investment properties with fair value of EUR 10,884 thousand (2013: EUR 10,811 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

	<u>2014</u>	<u>2013</u>
	<i>EUR thousand</i>	<i>EUR thousand</i>
At 1 January	1,210	1,223
Loss (unrealized) from fair value adjustments	(354)	(13)
Sale of property	(29)	-
At 31 December	<u>827</u>	<u>1,210</u>

Investment properties held for sale (not subject to development prior to sale) are carried at fair value estimated by an accredited external valuer, by using market comparables method. The effective date of the valuation is 31 December 2014. 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:

	<u>Valuation technique</u>	<u>Significant unobservable inputs</u>	<u>2014</u>	<u>2013</u>
Vacation property	Market comparables method	Adjustment for illiquidity (two-bedroom apartment and garage spaces)	-37%	-15%
		Adjustment for illiquidity (one-bedroom apartment and land)	-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.

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.

Investment properties held for sale as of 31 December 2014 and 31 December 2013 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 year.

For 2014 and 2013, due to the real estate market illiquidity and the lack of parameters of specific deals (excluding the sale of one-bedroom apartment from the same property in March 2014), the input data for the valuation was based on offer prices for comparable properties adjusted for specific characteristics of Fund's properties held for sale.

The fair value hierarchy of the Fund's investment properties and investment properties held for sale are disclosed in Note 20.

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7. Deferred expenses

	2014	2013
	<i>EUR thousand</i>	<i>EUR thousand</i>
Prepaid fees	6	1
Insurance	6	4
	<u>12</u>	<u>5</u>

8. Trade and other receivables

	2014	2013
	<i>EUR thousand</i>	<i>EUR thousand</i>
Rental income receivable, gross	62	48
Less: Impairment of receivables	(37)	(44)
Rental income receivable, net	<u>25</u>	<u>4</u>
Property sales receivables, gross	-	302
Less: Impairment of receivables	-	(302)
Property sales receivable, net	<u>-</u>	<u>-</u>
Prepayments to suppliers	11	10
Interest receivable	1	65
Receivables from prepayments to the Management Company	1	67
Other receivables	9	1
	<u>47</u>	<u>147</u>

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 2014, rental income receivables with nominal value of EUR 37 thousand (2013: EUR 44 thousand) are impaired following collectability analysis performed by the Fund's management.

Receivables for the amount of EUR 308 thousand fully impaired in prior years were written off against the allowance for impairment due to expired statute of limitations (more than five years have passed since the receivables became due). Receivables from the management company (which was acting as an agent in the specific transaction) for the amount of EUR 57 thousand were written off due to expired statute of limitations (Note 5.5).

Movements in the impairment of receivables were as follows:

	2014	2013
	<i>EUR thousand</i>	<i>EUR thousand</i>
At 1 January	(346)	(367)
Recognised	-	-
Reversed (Note 5.3)	1	18
Utilised	308	3
At 31 December	<u>(37)</u>	<u>(346)</u>

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8. Trade and other receivables (continued)

As at 31 December 2014 and 2013, the ageing analysis of trade and other receivables is as follows:

	Total	Neither past due nor impaired	Past due but not impaired				
			< 30 days	30-60 days	60-90 days	90-120 days	>120 days
			EUR thousand	EUR thousand	EUR thousand	EUR thousand	EUR thousand
2014	36	32	-	-	-	-	4
2013	137	74	-	-	-	-	63

9. Cash, cash equivalents and restricted cash

Cash

	2014	2013
	EUR thousand	EUR thousand
Cash at bank and in hand	4,216	16
Short-term deposits with banks	13	13,057
	4,229	13,073

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short-term deposits are made in Bulgarian Leva and are two years open/on-demand deposits in 2014 (2013: one year open/on-demand deposits), and earn fixed interest of 1.7% - 6% per annum (2013: 3.2% - 8 % per annum). The short-term deposits can be withdrawn at the option of the Fund at any time.

Restricted cash

The restricted cash represents a guarantee deposit for the amount of EUR 360 thousand with fixed interest rate of 1% and maturity date 11 January 2017. As disclosed in Note 13 the deposit serves as collateral for a bank guarantee issued.

10. Share capital, share premium and reserves

10.1. Share capital

Authorized and fully paid

	2014	2013
	EUR thousand	EUR thousand
Ordinary shares of EUR 0.511 each (BGN 1 each)	30,907	30,907
	30,907	30,907

Ordinary shares

Authorized, issued and fully paid

	Number of shares thousand	Amount EUR thousand
At 1 January 2013	60,450	30,907
At 31 December 2013	60,450	30,907
At 31 December 2014	60,450	30,907

During 2014 and 2013 the Fund did not increase its capital by means of a public offering on the Bulgarian Stock Exchange.

BULGARIAN REAL ESTATE FUND ADSIC
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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 2014 is as follows:

	Number of shares (thousand)	Shareholding percentage
Unicredit Bank Austria AG	5,129	8.48%
ING Universal Pension Fund	4,087	6.76%
UPF DKS Rodina	4,080	6.75%
ZYPF Allianz Bulgaria	2,977	4.92%
Universal Pension Fund Doverie AD	2,622	4.34%
Swedbank AS	1,678	2.78%
MNI OOD	1,603	2.65%
ING Voluntary Pension Fund	1,558	2.58%
DPF Allianz Bulgaria	1,498	2.48%
Globus Balistic EOOD	1,419	2.35%
Swedbank AS Clients	1,389	2.30%
DF UBB premium shares	1,332	2.20%
Mibo Consult EOOD	1,217	2.01%
UPF Pension Insurance Institute	1,071	1.77%
Nikolay Sergeevic Dragomiretski	1,068	1.77%
SEB Ostevropafond	1,057	1.75%
Chavdar Ivanov Donkov	908	1.50%
ING Professional Pension Fund	881	1.46%
Shareholdings of less than 1.4% interest	24,876	41.15%
	60,450	100%

10.2. Share premium

As at 31 December 2014 share premium amounts to EUR 5,016 thousand (2013: EUR 5,016 thousand), representing the excess of the proceeds of the issue of new shares in 2006 over their nominal value.

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11. Long-term interest bearing loans

	Nominal interest rate %	Maturity	2014	2013
			<i>EUR thousand</i>	<i>EUR thousand</i>
Current portion				
(1) EUR 7,000 thousand investment bank loan, at nominal value	1 month Euribor +1.6%	December 2015	910	861
Interest payable			5	6
			915	867
Non-current portion				
(1) EUR 7,000 thousand investment bank loan, at nominal value	1 month Euribor +1.6%	December 2016	963	1,873
Adjustment to amortized cost			(3)	(9)
			960	1,864

(1) EUR 7,000 thousand investment bank loan

The purpose of the loan is to finance the acquisition of the two commercial investment properties. The loan is secured by mortgage over investment properties with fair value as at 31 December 2014 of EUR 10,884 thousand (2013: EUR 10,811 thousand), present and future receivables under operating lease agreements of commercial properties and promissory notes to the amount of EUR 7,000 thousand together with the interest at 5% on this amount. The loan is repayable in monthly instalments due on 14th of each month. Maturity analysis of the loan based on contractual undiscounted payments is provided in Note 19.

12. Derivative financial instrument

	2014	2013
	<i>EUR thousand</i>	<i>EUR thousand</i>
Liability on interest rate swap reported in the statement of financial position	81	164
Unrealised gain on interest rate swap reported in income statement	83	126

The interest rate swap agreement matures on 14 December 2016. The notional amount is EUR 7,000 thousand. The Fund shall pay a fixed interest at 4.04% and receive a variable interest at 1 month Euribor. Details on the fair value of interest rate swap are provided in Note 20.

The Fund concluded a contract to secure its contingent obligations under the interest swap agreement in the event of default up to the amount of EUR 700 thousand with the same bank. This contract has the same term as the underlying interest swap agreement. In 2014 the Fund did not default under the swap agreement.

13. Other long-term liability

Under a purchase contract for a building from September 2014, the agreed purchase price includes contingent consideration of EUR 300 thousand. The contingent consideration is payable in 2016 if certain conditions are met by the seller (related to securing agreed level of rents for part of the building for a fixed period of time). The Fund has analyzed the agreement and the probability of cash outflows associated with it, and as a result has recognized a provision, measured at the present value of the expected cash outflows discounted at a discount rate of 4%. In 2014, in relation to the provision interest expense is recognized for the amount of EUR 3 thousand.

In relation to the purchase agreement, the Fund has established a bank guarantee in favor of the seller for the amount of EUR 360 thousand, covering the amount of the contingent consideration and the VAT due. The bank guarantee has a term until 31 December 2016.

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14. Provision for dividends due

	<u>2014</u>	<u>2013</u>
	<i>EUR thousand</i>	<i>EUR thousand</i>
Provision for dividends due	-	728
Provision for withholding tax	-	12
	<u>-</u>	<u>740</u>
Dividend per share, gross (in Euro)	<u>-</u>	<u>€0.012</u>

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.

As of 31 December 2014 the Fund reported accumulated losses of EUR 1,771 thousand due to the realized negative financial result for the current financial year of EUR 1,893 thousand. The Fund considered whether dividends could be distributed from the Premium reserves amounting to EUR 5,016 thousand as of 31 December 2014. Despite the lack of explicit regulation of the matter in the law and the possibility for different interpretations, the Fund has concluded that no dividends can be distributed from the Share premium reserve due to the following legal requirements:

- Under Article 10 from ASIPC “The special purpose investment company shall distribute as dividend not less than 90 percent of the profit for the financial year, arrived at according to the procedure established by Paragraph (3) and in compliance with the requirements of Article 247a of the Commerce Act.”
- Under article 247a, paragraph 1 from the Bulgarian Commerce act “Dividends and interest pursuant to article 190 paragraph 2 shall be paid out only if the respective annual financial statement, audited and adopted according to Section XI, shows that the net worth of the property reduced by the amount of dividends and interest to be paid-out is not less than the amount of the company's capital, “Reserve” fund and the other funds the company may be obliged to form by the Articles of Association or by law”.
- Under paragraph 2 from the same article from the Bulgarian Commerce act, “Within the meaning of paragraph 1, the net worth of the property is the difference between the company's assets and liabilities according to its balance sheet”, and under paragraph 3 “The payments under paragraph 1 shall be made up to the amount of the profit for the current year, the undistributed profits from previous years, the part of the “Reserve” fund and the other funds of the company in excess of the minimum set by law or the Articles of Association, reduced by the uncovered losses from previous years and the allowances for the “Reserve” fund and the other funds the company is obliged to form by law or the Articles of Association”.
- Under article 246, paragraph 2 from the Bulgarian commerce act, the proceeds obtained in excess of the nominal value of shares and debentures upon their issuing form part of the Reserve Fund of a company and under paragraph 3 from the same article “Disbursements from the Reserve fund may be made only for 1) covering losses for the current year or 2) covering losses for the previous year”.

Considering the above provisions of the Bulgarian Commerce act and ASIPC, the Fund has not recognized a provision for dividends as of 31 December 2014 (2013: EUR 740 thousand).

After the Board of Directors of Bulgarian Real Estate Fund ADSIC proposal, the regular General Meeting of the Shareholders, held on 15th July 2013, took decision for distribution of 100% of the adjusted (as defined in the Special Purpose Investment Companies Act, art 10) financial result of the Fund for 2012 and the remaining retained earnings from previous years. The difference between the provision for dividends due as of 31 December 2012, determined based on law requirements for the Fund according to ASIPC and the total amount of dividends for 2012, approved by the General Meeting of the Shareholders in the amount of EUR 1,083 thousand is accounted as decrease in retained earnings in the Statement of Changes in Equity for 2013.

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15. Trade and other payables

	<u>2014</u>	<u>2013</u>
	<i>EUR thousand</i>	<i>EUR thousand</i>
Payables to the Management Company	70	69
- payables related to construction works	47	44
- other payables	23	25
Accrued liabilities for claims	66	48
Prepayments by clients	64	-
Received deposits by tenants	45	-
VAT payables	13	5
Payables to suppliers	7	2
Dividend payables	1	5
Other payables	23	45
	<u>289</u>	<u>174</u>

Terms and conditions of the financial liabilities are:

- Payables to the Management Company 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 16.1.
- Payables to various suppliers are non-interest bearing and are normally settled on 14 day terms.
- Retentions are non-interest bearing and are normally settled upon acceptance of the project.

After an analysis, the management released accrued liabilities for construction contracts to the related party MNI for the amount of EUR 2 thousand (2013: EUR 22 thousand). The released liabilities are presented as other income (note 5.3).

16. 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 2014 and 2013 are presented below.

16.1. Fees and payables to Management Company

Real Estate Management Company (Management Company) has been appointed by the Board of Directors of the Fund as a management company of the Fund under the terms of an agreement dated 11 January 2005. The Management company 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 company may, subject to the approval of the Board of Directors, appoint at its own costs one or more investment advisor(s) who shall supply the Management company 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 company, 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 Company is entitled to receive management fees. These fees are based on an aggregate of 1.5% per annum on the Net Asset Values of the Fund. Management fees are payable monthly in arrears.

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16. Related party disclosures (continued)

16.1. Fees and payables to Management Company (continued)

The Management Company 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 book value 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 Company, directors, auditors, valuers and depository bank cannot exceed 8% of the total assets of the Fund.

For 2014 management fees charged were EUR 543 thousand (2013: EUR 553 thousand), EUR 1 thousand are overpaid as of 31 December 2014. (2013: fully paid as of 31 December 2013).

For 2014 no success fee is charged by the management company (2013: nil).

Other receivables from and payables to the Management Company are presented in Note 8 and Note 15, respectively.

16.2. 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 fees vary from one to ten minimal monthly salaries for Bulgaria. For the year ended 31 December 2014 Directors' remunerations were EUR 50 thousand, including social securities in the amount of EUR 8 thousand (2013: EUR 46 thousand, including social securities in the amount of EUR 7 thousand).

17. Earnings per share

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

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

	<u>2014</u>	<u>2013</u>
	<i>EUR thousand</i>	<i>EUR thousand</i>
(Loss)/ Profit for the year	(1,893)	862
Weighted average number of ordinary shares (in thousand)	<u>60,450</u>	<u>60,450</u>
Basic earnings per share (in Euro)	<u>€ (0.031)</u>	<u>€0.014</u>

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

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18. Commitments

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>2014</u>	<u>2013</u>
	<i>EUR thousand</i>	<i>EUR thousand</i>
Within one year	1,142	1,125
After one year but not more than five years	4,384	4,426
More than five years	<u>2,232</u>	<u>3,323</u>
	<u>7,758</u>	<u>8,874</u>

The Fund's present and future receivables under operating lease agreements are subject to pledge to secure bank loans as disclosed in Note 11.

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. The Fund's receivables under the main lease agreements are secured by bank guarantees or deposits received covering two to three gross monthly rents. As at 31 December, the future minimum lease payments are presented below:

	<u>2014</u>	<u>2013</u>
	<i>EUR thousand</i>	<i>EUR thousand</i>
Within one year	734	-
After one year but not more than five years	579	-
More than five years	-	-
	<u>1,313</u>	<u>-</u>

Lease of agricultural land (investment properties)

The Fund has entered into operating lease agreements of 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>2014</u>	<u>2013</u>
	<i>EUR thousand</i>	<i>EUR thousand</i>
Within one year	6	3
After one year but not more than five years	18	7
More than five years	17	3
	<u>41</u>	<u>13</u>

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19. Financial risk management objectives and policies

The Fund is exposed to 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.

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. Furthermore the Fund has entered into interest rate swap agreement, in which it agrees to exchange, at specified intervals, the difference between fixed and variable rate interest amounts calculated by reference to an agreed-upon notional principal amount equal to the borrowed amount on the EUR 7,000 thousand investment bank loan (Note 11).

As at 31 December 2014 the interest rate risk is limited, as all interest bearing bank loans and deposits are with fixed rates (the interest rate risk of the EUR 7,000 thousand investment loan is minimized by the contracted swap agreement). The contracted swap agreement has no impact on the Fund's other components of equity.

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 2014	<u>On demand</u>	<u>Less than 3</u> <u>months</u>	<u>3 to 12</u> <u>months</u>	<u>1 to 5</u> <u>years</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>
EUR 7,000 thousand investment bank loan and liability on a derivative financial instrument	-	247	741	988	-	1,976
Trade and other payables	116	30	-	-	-	146
	<u>116</u>	<u>277</u>	<u>741</u>	<u>988</u>	<u>-</u>	<u>2,122</u>

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19. Financial risk management objectives and policies (continued)

Liquidity risk (continued)

As of 31 December 2013	<u>On demand</u>	<u>Less than 3 months</u>	<u>3 to 12 months</u>	<u>1 to 5 years</u>	<u>> 5 years</u>	<u>Total</u>
	<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>	<i>EUR</i> <i>thousand</i>
EUR 7,000 thousand investment bank loan and liability on a derivative financial instrument	-	247	742	1,976	-	2,965
Trade payables	74	47	-	-	-	121
	74	294	742	1,976	-	3,086

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 borrowings 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 2014 in relation to each class of recognized financial assets is the carrying amount of those assets as indicated in the statement of financial position.

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 2014 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	4,216	BBB
Bank 2	360	BB+
Bank 3	13	BB-

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19. Financial risk management objectives and policies (continued)

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>2014</u>	<u>2013</u>
	<i>EUR</i>	<i>EUR</i>
	<i>thousand</i>	<i>thousand</i>
Share capital	30,907	30,907
Share premium	5,016	5,016
(Accumulated losses)/Retained earnings	(1,771)	122
Total equity	<u>34,152</u>	<u>36,045</u>
Investment properties, including held for sale	32,029	26,627
Long-term interest bearing loans (long and short-term portion)	1,875	2,731
Equity to long-term debt	18.22	13.20
Investment properties, including held for sale to equity	0.94	0.74
Market capitalization	16,690	16,443

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20. Fair value measurement

The following table provides the fair value measurement hierarchy of the Company's assets and liabilities as of 31 December 2014.

	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)
		EUR thousand	EUR thousand	EUR thousand	EUR thousand
Assets measured at fair value:					
Investment properties (Note 6.1)					
Commercial properties	31.12.2014	10,884	-	-	10,884
Non-agricultural lands	31.12.2014	12,595	-	-	12,595
Office properties	31.12.2014	7,500	-	-	7,500
Agricultural lands	31.12.2014	152	-	-	152
Investment properties held for sale (Note 6.2)					
Vacancy properties	31.12.2014	827	-	-	827
Liabilities measured at fair value:					
Derivative financial liabilities (Note 12)					
Interest rate swap	31.12.2014	81	-	81	-
Liabilities for which fair values are disclosed:					
Interest-bearing loans and borrowings (Note 11)					
Floating rate borrowings	31.12.2014	1,875	-	1,875	-
Assets for which fair values are disclosed:					
Long-term financial assets (Note 9, Note 13)					
Restricted cash	31.12.2014	360	-	360	-

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20. Fair value measurement (continued)

The following table provides the fair value measurement hierarchy of the Company's assets and liabilities as of 31 December 2013.

	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)
		EUR thousand	EUR thousand	EUR thousand	EUR thousand
Assets measured at fair value:					
Investment properties (Note 6.1)					
Commercial properties	31.12.2013	10,811	-	-	10,811
Non-agricultural lands	31.12.2013	14,517	-	-	14,517
Agricultural lands	31.12.2013	89	-	-	89
Investment properties held for sale (Note 6.2)					
Vacancy properties	31.12.2013	1,210	-	-	1,210
Liabilities measured at fair value:					
Derivative financial liabilities (Note 12)					
Interest rate swap	31.12.2013	164	-	164	-
Liabilities for which fair values are disclosed:					
Interest-bearing loans and borrowings (Note 11)					
Floating rate borrowings	31.12.2013	2,731	-	2,731	-

In 2014 and 2013 there have been no transfers between the levels of the fair value measurement hierarchy.

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:

	Carrying amount		Fair value	
	2014	2013	2014	2013
	EUR thousand	EUR thousand	EUR thousand	EUR thousand
<i>Financial assets</i>				
Trade and other receivables	36	137	36	137
Cash and short-term deposits	4,229	13,073	4,229	13,073
Long-term financial assets	360	-	360	-
<i>Financial liabilities</i>				
Long-term interest bearing loans	1,875	2,731	1,875	2,731
Derivative financial instrument	81	164	81	164
Trade payables	146	121	146	121

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20. Fair value measurement (continued)

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 fair value of the derivative interest rate swap contract is estimated by discounting expected future cash flows using current market interest rates and yield curve over the remaining term of the instrument. The counterparty bank performed the fair value assessment of the interest rate swap.
- The fair value of long-term financial assets with fixed interest rate is determined by discounting the expected future cash flows using current market interest rates. As of 31 December 2014, the carrying value of long-term financial assets does not differ significantly from the estimated fair value.

21. Events after the reporting date

On 28 January 2015 the Fund concluded a sale of an apartment, part of the property held for sale and on 18 March 2015 concluded a sale of two land plots, part of the non-agricultural land near Veliko Tarnovo.

The management of the Fund decided to start construction works related to an investment property, located near Business Park Sofia. In relation to that over the past year the Fund has developed technical design of the building and in March 2015 received permission for construction.

There are no other subsequent events between the reporting date and the date these financial statements have been authorised for issue that would require adjustment and/or disclosure in the financial statements of Bulgarian Real Estate Fund ADSIC for the year ended 31 December 2014.