Bulgarian Real Estate Fund ADSIC

ANNUAL FINANCIAL STATEMENTS

31 December 2019

BULGARIAN REAL ESTATE FUND ADSIC

Contents

BULGARIAN REAL ESTATE FUND ADSIC

General information

Board of Directors
Todor Breshkov, Chairman of the Board of Directors
Chavdar Donkov, Member of the Board of Directors
Nikolay Skarlatov, Executive Director

Audit Committee
Nikolay Sergeevich Dragomiretski
Irena Yordanova Daskalova
Atanas Kirilov Traychev

Registered office
3A Nikolay Haytov Str., fl. 1
1113 Sofia
Bulgaria

Depository bank
DSK Bank AD

Brokers
Settle Real Estate OOD

Management Fund
Real Estate Management (MNI) OOD

Bulstat Registration number
131350366

Auditor
AFA OOD
1504 Sofia
38 Oborishte str.

AUDIT
FINANCE
ACCOUNTING
TAX
LAW

INDEPENDENT AUDITOR'S REPORT

TO
THE SHAREHOLDERS
OF
BULGARIAN REAL ESTATE FUND ADSIC

Opinion

We have audited the accompanying financial statements of Bulgarian Real Estate Fund ADSIC (the Company, the Fund), which comprise the statement of financial position as at 31 December 2019, and the income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2019, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union (EU).

Basis for Opinion

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

Emphasis of Matter

We draw attention to the disclosure of *Note 20 Events after the reporting period* to the financial statements, which describes a material non-adjusting event, related to the spread of the coronavirus (COVID-19) pandemic. The disruption of the normal business activities in the Republic of Bulgaria as a result of COVID-19 may affect adversely the Fund's operations, in particular – on the regularity of business rental payments and the rates of implementation of investment projects. Due to the unpredictable dynamic of COVID-19, however, at this stage it is not practicable to provide a reliable estimate of the pandemic's potential impact on the Company's future operations. Our opinion is not modified in respect of this matter.

Key Audit Matters

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

Key audit matter	How our audit addressed the key audit matter
Valuation of investment properties, incl. investment properties held for sale. The Fund's disclosures with respect to the valuation of investment properties, incl. investment properties held for sale, are presented in Note (j), (l), (m), 3, 6 and 19 to the financial statements. The investment properties (incl. investment properties held for sale) of Bulgarian Real Estate Fund ADSIC (the Fund/Company) comprise office and commercial properties, agricultural and non-agricultural land, vacation properties and properties under construction. Their carrying amount is determined based on an estimation of the fair value of each property in the Fund's portfolio and amounts to BGN 95,244 thousand (EUR 48,697 thousand) as at 31 December 2019. The net gain on changes in the fair values of investment properties recognized in the profit for 2019 is of BGN 572 thousand (EUR 292 thousand). The fair valuation of investment properties is a complex process of estimates calculation using many assumptions and specific valuation methods, techniques and models. Therefore, this fair valuation is inherently uncertain, as it involves the use of various forecasts and	***In this area, our audit procedures included, among others:*** • Obtaining updated understanding of the process of valuation of investment property (including investment property held for sale) and of the controls over monitoring and acceptance of the valuation reports issued by independent licensed appraiser. Process walk-through; • Examination of the policies and procedures which the management applies during the current year with respect to regular fair value measurement of investment property and investment property held for sale; • Assessment of the adopted by the Fund policy and procedures regarding fair value measurement for the application consistency and continuing appropriateness; • Evaluation of the independence, expertise, capacity and objectivity of the external appraiser appointed by the Fund. In addition, discussion of the scope of the appraiser's work with the management and review of the conditions for his/her appointment.

assumptions of high degree of subjectivity, incl. of both observable and unobservable input data. The Fund's policy is to engage an external licensed valuation appraiser, for the purpose of determination of the fair values of properties from all categories. Such an expert is appointed each year. Due to the significance of investment properties' amount in the Fund's financial statements (80% of the total assets), including for reported financial results and mandatory dividend calculation, as well as the application of number of judgements and assumptions of higher degree of subjectivity and the inherent uncertainty of fair value estimation related to that, this is considered a key audit matter.	• Involvement of our internal valuation expert to assist us in assessing key judgements, the valuation methods, techniques and models applied, the inputs and significant assumptions used (such as discount rates, risk of vacancy, rental rates, development period, rate of capitalization, offer selling prices, adjustment of indicators, etc.). Testing, by means of recalculation, of certain calculations of the appraiser appointed by the Fund. • Comparison, with the assistance of our internal valuation expert, of the key input data with publicly available market data and the Fund-specific historical information on property deals and other facts and circumstances in order to analyse and assess their relevance. • Testing selected input data on which the valuation of certain investment properties is based, including forecast rental income, occupancy rates, capital expenditure, including review and inspection of appropriate supporting documentation for its accuracy, reliability and completeness. • Assessment of the completeness, relevance and appropriateness of the Company's disclosures related to measuring the fair value of investment property.

Other matter

We have audited the statutory financial statements of the Company for the year ended 31 December 2019, prepared in accordance with International Financial Reporting Standards as adopted by the European Union and presented in BGN and have expressed an unmodified opinion on those financial statements on 30 March 2020.

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

Management is responsible for the other information. The other information, which we have obtained prior the date of our auditor's report, comprises the management report, including the corporate governance statement prepared by management in accordance with Chapter Seven of the Accountancy Act, but does not include the financial statements and our auditor's report thereon. The Company's management report, including the corporate governance statement accompanies the statutory financial statements of the Company for the year ended 31 December 2019.

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

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

We have nothing to report in this regard.

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

Management is responsible for the preparation and true and fair presentation of the financial statements in accordance with IFRS, as adopted by the EU, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

— Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

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

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

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

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

AFA OOD
Audit Firm

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

30 March 2020
38, Oborishte Street
1504-Sofia, Bulgaria

Bulgarian Real Estate Fund ADSIC

ANNUAL FINANCIAL STATEMENTS

31 December 2019

BULGARIAN REAL ESTATE FUND ADSIC
INCOME STATEMENT
For the year ended 31 December 2019

	Notes	2019	2018*
		EUR thousand	*EUR thousand*
Income			
Revenue	5.1	3,751	3,455
Net gains from fair value adjustments to investment properties	6.1, 6.2	292	1,298
Income from sale of investment property		295	42
Other income	5.3	9	9
Total income		**4,347**	**4,804**
Expenses			
Direct operating expenses arising from properties	5.4	(652)	(599)
Management fees	14.1	(563)	(572)
Interest expenses		(141)	(160)
Directors' remunerations and Board expenses	14.2	(60)	(58)
Carrying amount of sold investment property	6.2	(278)	(42)
Employee benefit costs		(32)	(30)
Other expenses	5.5	(61)	(62)
Total expenses		**(1,787)**	**(1,523)**
Profit for the year		**2,560**	**3,281**
Basic earnings per share	15	**0.074**	**0.147**
Diluted earnings per share	15	**0.074**	**0.147**
Dividend per share, gross	12	**0.063**	**0.079**

ФОНД ЗА НЕДВИЖИМИ ИМОТИ БЪЛГАРИЯ * АДСИЦ * СОФИЯ

Executive Director:
Nikolay Skarlatov

Preparer:
Alexander Georgiev

AUDITED BY AFA
30/03/2020

These financial statements were authorised for issue by the Board of Directors on 30 March 2020. The accompanying notes to the financial statements on pages 6 to 51 form an integral part of these financial statements.

* Modified retrospective application of IFRS 16 (Note 2.3).

BULGARIAN REAL ESTATE FUND ADSIC
STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31 December 2019

	2019	2018
	EUR thousand	*EUR thousand*
Profit for the year	**2,560**	**3,281**
Other comprehensive income for the year	-	-
Total comprehensive income for the year	**2,560**	**3,281**

ФОНД ЗА НЕДВИЖИМИ ИМОТИ БЪЛГАРИЯ * АДСИЦ * СОФИЯ

Executive Director:
Nikolay Skarlatov

Preparer:
Alexander Georgiev

AUDITED BY AFA
30/03/2020

These financial statements were authorised for issue by the Board of Directors on 30 March 2020. The accompanying notes to the financial statements on pages 6 to 51 form an integral part of these financial statements.

BULGARIAN REAL ESTATE FUND ADSIC
STATEMENT OF FINANCIAL POSITION
As at 31 December 2019

	Notes	2019 *EUR thousand*	2018* *EUR thousand*
ASSETS			
Non-current assets			
Investment property	6.1	47,972	43,589
Equipment		1	3
Intangible assets		-	2
Right-of-used assets **	17	16	-
		47,989	**43,594**
Current assets			
Trade and other receivables	8	413	236
Deferred expenses	7	59	31
Cash and cash equivalents	9	11,480	15,822
		11,952	**16,089**
Investment property held for sale	6.2	725	726
TOTAL ASSETS		**60,666**	**60,409**
Equity			
Share capital	10.1	17,712	17,712
Share premium	10.2	30,361	30,361
Retained earnings		5,860	5,499
Total equity		**53,933**	**53,572**
Non-current liabilities			
Long-term interest bearing loans	11	3,395	4,012
Lease liabilities **	17	9	-
		3,404	**4,012**
Current liabilities			
Current portion of long-term interest bearing loans	11	619	600
Trade and other payables	13	503	460
Lease liabilities **	17	8	-
Provision for dividends due	12	2,199	1,765
		3,329	**2,825**
Total liabilities		**6,733**	**6,837**
TOTAL EQUITY AND LIABILITIES		**60,666**	**60,409**

Executive Director:
Nikolay Skarlatov

Preparer:
Alexander Georgiev

AUDITED BY AFA
30/03/2020

These financial statements were authorised for issue by the Board of Directors on 30 March 2020. The accompanying notes to the financial statements on pages 6 to 51 form an integral part of these financial statements.

* Modified retrospective application of IFRS 16 (Note 2.3).
** Line reposted following the requirements of IFRS 16 effective 1 January 2019.

BULGARIAN REAL ESTATE FUND ADSIC
STATEMENT OF CHANGES IN EQUITY
For the year ended 31 December 2019

	Share capital (Note 10.1)	Share premium (Note 10.2)	Retained Earnings	Total
	EUR thousand	*EUR thousand*	*EUR thousand*	*EUR thousand*
At 1 January 2018	**30,907**	**3,245**	**3,983**	**38,135**
Profit for the year	-	-	3,281	3,281
Other comprehensive income	-	-	-	-
Total comprehensive income	-	-	**3,281**	**3,281**
Decrease in nominal value of shares	(20,605)	20,605	-	-
Issuance of shares	7,410	6,669	-	**14,079**
Transaction costs related to issuance of shares	-	(158)	-	**(158)**
Distributed dividends (Note 12)	-	-	(1,765)	(1,765)
At 31 December 2018*	**17,712**	**30,361**	**5,499**	**53,572**
Profit for the year	-	-	2,560	**2,560**
Other comprehensive income	-	-	-	-
Total comprehensive income	-	-	**2,560**	**2,560**
Distributed dividends (Note 12)	-	-	(2,199)	**(2,199)**
At 31 December 2019	**17,712**	**30,361**	**5,860**	**53,933**

Executive Director:
Nikolay Skarlatov

Preparer:
Alexander Georgiev

AUDITED BY AFA
30/03/2020

These financial statements were authorised for issue by the Board of Directors on 30 March 2020. The accompanying notes to the financial statements on pages 6 to 51 form an integral part of these financial statements.

* Modified retrospective application of IFRS 16 (Note 2.3).

BULGARIAN REAL ESTATE FUND ADSIC
STATEMENT OF CASH FLOWS
For the year ended 31 December 2019

	Notes	2019	2018*
		EUR thousand	*EUR thousand*
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit for the year		**2,560**	**3,281**
Adjustments to reconcile profit for the year to net cash flows			
Non-cash:			
Net gains from fair value adjustments to properties	6.1, 6.2	(292)	(1,298)
Interest expense		141	160
Gain from sale of investment properties		(17)	-
Depreciation expense	5.5	11	5
Working capital adjustments:			
Increase in trade and other receivables		(250)	(174)
Increase/(Decrease) in trade and other payables		50	(321)
Net cash flows from operating activities		**2,203**	**1,653**
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of investment properties		(4,329)	(448)
Purchase of equipment and intangible assets		-	-
Proceeds from sale of investment properties		295	42
Net cash flows used in investing activities		**(4,034)**	**(406)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from increase in share capital		-	14,079
Transaction costs related to the increase in share capital		-	(158)
Repayment of non-current bank loans		(599)	(580)
Lease payments**		(8)	-
Interest paid		(140)	(159)
Dividends paid		(1,764)	(351)
Net cash flows (used in)/from financing activities		**(2,511)**	**12,831**
Net (decrease)/increase in cash and cash equivalents		(4,342)	14,078
Cash and cash equivalents at 1 January		15,822	1,744
Cash and cash equivalents at 31 December	9	**11,480**	**15,822**

ФОНД ЗА НЕДВИЖИМИ ИМОТИ БЪЛГАРИЯ СОФИЯ * АДСИЦ *

Executive Director:
Nikolay Skarlatov

Preparer:
Alexander Georgiev

AUDITED BY AFA
30/03/2020

These financial statements were authorised for issue by the Board of Directors on 30 March 2020. The accompanying notes to the financial statements on pages 6 to 51 from an integral part of these financial statements.

* Modified retrospective application of IFRS 16 (Note 2.3).
** Line reposted following the requirements of IFRS 16 effective 1 January 2019.

1. Corporate Information

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

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

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

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

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

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

These financial statements for the year ended 31 December 2019 were authorized for issue in accordance with a resolution of the Board of Directors on 30 March 2020.

2.1. Basis of preparation

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

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

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

Statement of compliance

The financial statements of Bulgarian Real Estate Fund have been prepared in accordance with the all International Financial Reporting Standards (IFRS), which comprise of International Accounting Standards, the interpretations, issued by the International Financial Reporting Interpretations Committee (IFRIC), approved by the International Accounting Standards Board (IASB), SIC interpretations, issued by the Standard Interpretations Committee, which were effective on 1 January 2019 and which were adopted by the European Commission.
These financial statements have been prepared for the use of shareholders and foreign investors.
BREF has presented a separate set of statutory financial statements in Bulgarian, expressed in Bulgarian leva, in accordance with IFRS, as adopted for use in the EU. Reporting framework "IFRS as adopted by the EU" is the commonly accepted naming of the generally accepted accounting framework, which is essentially the defined national basis of accounting "IAS, as adopted by the EU", specified in the Bulgarian Accountancy Act and defined in paragraph 8 of its Additional provisions. The statutory financial statements were authorized for issue by the Board of Directors on 30 March 2020.

2.2. Summary of the significant accounting policies

Comparative information

The Fund presents comparative information in these financial statements for the one year. Where necessary, comparative data is reclassified (and/ or restated) to increase comparability with current year figures. An exception to this rule is the presentation of the effects of an application for the first time on IFRS 16 Leases.

The Fund has selected a modified retrospective initial application of IFRS 16 Leases, whereby all transition effects are determined and reported on 1 January 2019. Thus, the initial application of the standard did not result in adjustments and reclassifications of comparative information and it is not restated (Note 2.3, Note 17).

a) Foreign currency translation

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

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

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

b) Revenue from contracts with customers

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

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

2.2. Summary of the significant accounting policies (continued)

b) Revenue from contracts with customers (continued)

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

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

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

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.

2.2. Summary of the significant accounting policies (continued)

f) Earnings per share

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

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

g) Financial instruments – recognition and measurement

- **Financial assets**

Initial recognition and measurement

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

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

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

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

Subsequent measurement

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

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

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

2.2. Summary of the significant accounting policies (continued)

g) Financial instruments – recognition and measurement (continued)

- **Financial assets (continued)**

Financial assets at amortised cost (debt instruments)

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

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

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

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

Derecognition

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

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

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

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

Impairment of financial assets

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

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

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

2.2. Summary of the significant accounting policies (continued)

g) Financial instruments – recognition and measurement (continued)

- **Financial assets (continued)**

Impairment of financial assets (continued)

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

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

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

- **Financial liabilities**

Initial recognition

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.
All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.
The Fund’s financial liabilities include trade and other payables, loans and borrowings and lease liabilities.

Subsequent measurement

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

Loans and borrowings

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

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

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

2.2. Summary of the significant accounting policies (continued)

g) Financial instruments – recognition and measurement (continued)

Derecognition

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

h) Offsetting of financial instruments

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

i) Share capital

Share capital represents the par value of shares issued and paid by the shareholders. Any proceeds in excess of par value are recorded in share premium.
The Fund recognises a liability to make cash distributions to shareholders when the distribution is authorised or is required by law and the distribution is no longer at the discretion of the Fund. A corresponding amount is recognised directly in equity.

j) Fair value measurement

The Fund measures at fair value for purposes of financial reporting some of its assets and liabilities. On recurring annual basis measured at fair value are investment properties and investment properties held for sale at fair value at each reporting date. Fair values of financial instruments measured at amortised cost are disclosed in Note 19.

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

2.2. Summary of the significant accounting policies (continued)

j) Fair value measurement (continued)

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.

The valuation of the fair value of significant assets such as investment property, held-for-sale investment property and derivative financial liabilities is subject to external independent appraisers, assessed on an annual basis by the management of the Fund. External evaluators are selected on the basis of their professional experience, qualities and reputation. After discussing with the valuation specialists, the management decides which valuation methods and inputs are most appropriate to use in each case.
At each reporting date, management analyzes the changes in the values of assets and liabilities that are subject to revaluation in accordance with the Fund's accounting policies. This includes reviewing key inputs used in the most recent assessment and comparing them with relevant historical information such as contracts and other relevant documents. Also, management, in conjunction with valuation specialists, compares changes in the fair value of each asset or liability with appropriate external sources to determine whether the changes are reasonable.

For the purposes of fair value disclosure, the Fund determines different classes of assets and liabilities, depending on their nature, characteristics and risk and the respective level of the fair value hierarchy described above.

l) Investment properties

Investment property is property held to earn rentals or for capital appreciation or both. Investment properties are measured initially at cost, including transaction costs. The carrying amount includes the cost of replacing part of an existing investment property at the time that cost is incurred if the recognition criteria are met; and excludes the costs of day to day servicing of an investment property.
Subsequent to initial recognition, investment properties, including investment properties under construction are stated at fair value, which reflects market conditions at the reporting date. Gains or losses arising from changes in the fair values of investment properties are included in the income statement in the year in which they arise.

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

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

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

2.2. Summary of the significant accounting policies (continued)

m) Investment properties held for sale

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

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

k) Leases

The Fund applies IFRS 16 Leasing in a modified approach as of January 1, 2019. The effects of the transition to IFRS 16 Leasing are described in Note 2.3.

Accounting policy effective from January 1, 2019

At the commencement date of the lease, whichever is earlier - the date of the lease agreement or the date of the parties' engagement with the basic terms of the lease, the Fund analyzes and evaluates whether the lease represents or contains elements of the lease. A lease represents or contains a lease if, under it, the right to control the use of an asset for a specified period of time is transferred for consideration.

Fund as a lessor
The Fund classifies each of its leases as an operating or finance lease. When substantially all significant risks and rewards of ownership of the underlying asset are transferred through the leasing contract, it is classified as a finance lease and all other contracts that do not contain such conditions are classified as operating leases.

Operating leases
The Fund is normally a party to operating leases.

Rental income is recognized on a straight-line basis over the term of the lease and is recognized in the income statement for the basic income due to its operational nature. Initial direct costs related to the contracting and settlement of operating leases are capitalized on the carrying amount of the leased asset and are recognized for the lease term on the same basis as rental income. Contingent rents are recognized as income in the period in which they are earned.

The main asset that is the subject of the lease remains and is presented in the statement of financial position of the Fund.

Where the contract contains leases and non-lease components, the Fund applies the rules of IFRS 15 to distribute the total contractual consideration between the various components.

2.2. Summary of the significant accounting policies (continued)

k) Leases (continued)

Fund as a lessee
The Fund applies a uniform model for the recognition and valuation of all leases, except for short-term leases (lease with a term of 12 months or less from the date of the lease start-up and which does not contain an option to purchase) and leases of low value assets (such as tablets, PCs, telephones, office equipment, etc.).

a) rights of use
The Fund recognizes a “right of use” asset in the statement of financial position at the date the leases are commenced, i.e. the date on which the underlying asset is available for use by the lessee.
Right of use assets are presented in the statement of financial position at cost less accumulated amortization, impairment losses and adjustments resulting from revaluations and adjustments to the lease obligation. The cost includes:

- the amount of the initial assessment of the lease obligations;
- lease payments made on or before the commencement date, less the incentives received under the lease agreements;
- the initial direct costs incurred by the Fund as a lessee;
- reimbursement costs that the Fund will incur for dismantling and relocating the underlying asset, rebuilding the site where the asset is located, or restoring the underlying asset in the condition required by the contract;

The Fund amortises the right to use asset for the shorter of the useful life and the lease term. If the ownership of the asset is transferred under the lease agreement by the end of the lease term, it depreciates it for its useful life. Depreciation starts to accrue from the commencement date of lease.

The subject of the leasing contract is an office space in a building and the specified depreciation period is 3 years.

Right of use assets are subject to impairment in accordance with the requirements of IAS 36 Impairment of assets, applying the policy of determining and reporting impairment as for property, plant and equipment (tangible fixed assets). The recoverable amount of right of use assets is the higher of: fair value less cost to sale or value in use. To determine the value in use of the assets, future cash flows are discounted to their present value by applying a discount rate that reflects current market conditions and estimates of the time value of money and the risks specific to the asset. Impairment losses are defined as the difference between the recoverable amount and the carrying amount (when the recoverable amount is lower than the carrying amount) and is presented in the income statement as "other expenses".

Assets under rights of use are presented separately in the statement of financial position, and their depreciation - to "other expenses" in the income statement.

b) lease liabilities
The Fund recognizes lease liabilities at the commencement date of the lease, measured at the present value of the lease payments not paid at that date. They include:

- fixed payments (including substantially fixed lease payments), less received lease incentives;
- variable lease payments based on indices or rates initially estimated using the indexes or percentages at the commencement date of the lease;
- payments of penalties for termination of leasing contracts if the exercise of a termination option for termination of the contract by the lessee is reflected in the term of the lease;

Variable lease payments that do not depend on indexes or rates but are related to the performance or use of the underlying asset are not included in the measurement of the lease liability and the right of use asset. They are recognized as an expense in the period in which the event or circumstance that led to those payments occurs and are included in 'other expenses' in profit or loss for the year.
The lease payments shall be discounted at the contract’s implicit interest rate if it can be readily determined or at the borrower interest rate of the Fund which it would pay if it borrowed the funds necessary to obtain an asset of a similar asset value, " right to use, "for a similar period of time, with similar collateral and in a similar economic environment.

2.2. Summary of the significant accounting policies (continued)

k) Leases (continued)

b) leasing obligations(continued)
Lease payments (instalments) contain in a certain proportion the financial expense (interest) and the corresponding portion of the lease liability (principal). The interest expense on the lease is presented in the income statement (in profit or loss for the year) of the Fund during the lease period on a periodic basis so as to achieve a constant interest rate on the remaining unpaid portion of the principal on the lease liability, presented as "Financial costs".

The Fund subsequently evaluates the lease obligation as:
- increases the carrying amount to reflect interest on leasing liabilities;
- reduces the carrying amount to reflect the lease payments made;
- reassesses the carrying amount of the lease obligation to reflect the revaluation or modification of the lease;

The Fund reassesses its leasing obligations (which also makes correspondent entries to the respective rights of use assets) when:
- there is a change in the lease term or an event or circumstance has occurred that has led to a change in the valuation of the purchase option whereby the adjusted lease obligations are recalculated at an adjusted discount rate;
- there is a change in lease payments resulting from a change in the index or percentage or there is a change in the amounts expected to be payable on the residual value guarantee, whereby the adjusted lease obligations are recalculated by the unchanged (original) discount rate (except when the change in lease payments results from a change in floating interest rates, in this case an adjusted discount rate is used, which reflects changes in the interest rate);
- the lease has been amended and this amendment is not reflected as a separate lease, in which case the lease liability is recalculated based on the term of the modified lease, discounting the modified lease payments with an adjusted discount rate at the effective date of the change.

Accounting policy effective until 31 December 2018

Determining whether an agreement constitutes or contains a lease is based on the nature of the agreement, at the outset, and requires an assessment as to whether the implementation of the agreement depends on the use of a particular asset or assets and whether the agreement transfers the right to use the asset.

Fund as a lessor
A lease, in which the Fund retains substantially all the risks and rewards of ownership of the leased asset, is classified as an operating lease. The initial direct costs incurred by the Fund in connection with the contracting and settlement of operating leases are added to the carrying amount of the leased asset and are recognized as an expense throughout the lease term on the same basis as lease income. Contingent rents are recognized as income in the period in which they are earned.

Fund as a lessee
A lease in which the lessor continues to hold a significant portion of all the risks and rewards of ownership of the asset is classified as an operating lease. Therefore, the asset is not included in the lessee's financial position.
Operating lease payments are recognized as an expense in the income statement (in profit or loss for the year) on a straight-line basis over the lease term.

2.2. Summary of the significant accounting policies (continued)

n) Equipment

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

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

	2019	2018
Furniture and fixtures	5 years	5 years
Computers	2 years	2 years
Other assets	6-7 years	6-7 years

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

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

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

For 2019 and 2018 the Fund did not report any significant items of equipment.

o) Operating segments

An operating segment is a component of the Fund:

(a) that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the Fund),

(b) whose operating results are regularly reviewed by the entity's management to make decisions about resources to be allocated to the segment and assess its performance, and

(c) for which discrete financial information is available.

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

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

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

As of 31 December 2019, and 2018 the Fund does not report discrete operating segments. Further information for revenue from external customers is provided in Note 5.2.

2.2. Summary of the significant accounting policies (continued)

p) Cash and cash equivalents

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

Subsequent measurement
Cash and cash equivalents in banks are subsequently measured at amortised cost, decreased by accumulated impairment for expected credit losses.
For the purpose of the statement of cash flows, cash and cash equivalents consist of cash and short-term deposits as defined above.

q) Provisions

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

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

On base of Fund performance for 2019, the management has analysed the obligation for dividend distribution from economical and legal perspective. As a result, the Fund recognised provision for dividends due for its present legal obligation to distribute dividends at the reporting date.

r) Intangible assets

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

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

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

	2019	2018
Software	2 years	2 years

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

For 2019 and 2018 the Fund did not report any significant items of intangible assets.

2.3 Changes in accounting policy and disclosures

New and amended standards and interpretations

The Fund applies IFRS 16 for the first time. The nature and effect of the changes resulting from the adoption of these new accounting standards are described below.

For the first time in 2019 some other amendments and clarifications are applied, but they have no impact on the financial statements of the Fund. The Fund has not adopted standards, clarifications or amendments that have been published but have not yet entered into force.

IFRS 16 *Leases*

IFRS 16 was published in January 2016 and replaces IAS 17 *Leases,* IFRIC 4 *Determining Whether an Arrangement Contains a Lease,* SIC-15 *Operating Leases—Incentives,* SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease.*
IFRS 16 sets out the principles for recognition, measurement, presentation and disclosures of leases and requires lessees to account all lease contracts based on uniform balance method, that is similar to the accounting treatment of finance lease in accordance with IAS 17.

The Fund adopted IFRS 16 using the modified retrospective method of adoption with the date of initial application of 1 January 2019. Under this method, the standard is applied retrospectively and the cumulative effect of its adoption is recognized on the date of initial application. The Fund elected to use the transition practical expedient to not reassess whether a contract is, or contains, a lease at 1 January 2019. Instead, the Fund applied the standard only to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 at the date of initial application.

	2019
	EUR'000
Amounts under open operating leases as at December 31, 2018	26
The effect of discounting the above amounts at the following average differential interest rate of 3.5%	(2)
Present value of a lease obligation recognized as of January 1, 2019	**24**
including.	
The long-term part	16
Short term part	8

The effect of adopting IFRS 16 (increase/(decrease) is, as follows:

	EUR'000
Assets	
Right-of-use assets	24
Total assets	**24**
Liabilities	
Lease liabilities	24
Total liabilities	**24**
Net effect on the equity	**-**
Retained earnings	**-**

2.3 Changes in accounting policy and disclosures (continued)

New and amended standards and interpretations (continued)

IFRS 16 *Leases (continued)*

Upon adoption of IFRS 16, the Fund applied a single recognition and measurement approach for all leases. The standard provides specific transition requirements and practical expedients, which have been applied by the Fund.

The Fund recognizes rights to use and lease liabilities for those leases that were previously classified as operating. Leasing liabilities are recognized based on the present value of the remaining lease payments discounted using the intrinsic interest rate at the date of initial application.

The Fund has also implemented the following practical measures:

- relied on its assessment of whether the leases were burdensome, immediately before the date of initial application;
- excluded the initial direct costs from the valuation of the asset with the right to use the date of initial application;
- used the information available to determine the lease term when the contract contains options for extending or terminating the lease.

Based on the above, as of January 1, 2019:

- Assets on use rights are recognized and presented separately in the statement of financial position.
- Leasing liabilities recognized separately in the statement of financial position are recognized.

IFRIC 23 Uncertainty over Income Tax Treatments
The Interpretation is effective for annual periods beginning on or after 1 January 2019 with earlier application permitted. The Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12. The Interpretation provides guidance on considering uncertain tax treatments separately or together, examination by tax authorities, the appropriate method to reflect uncertainty and accounting for changes in facts and circumstances. The amendments have no effect on the financial position or performance of the Fund.

IFRS 9 Financial Instruments: Classification and Measurement (Amendments): Prepayment Features with Negative Compensation
The Amendments, effective for annual periods beginning on or after 1 January 2019 with earlier application permitted, propose a change to IFRS 9 for particular financial assets that would otherwise have contractual cash flows that are solely payments of principal and interest but do not meet that condition only as a result of a negative prepayment feature. Specifically, for a financial asset that contains a prepayment option that may result in the payment of a reasonable negative compensation amount, the Amendments require the financial asset to be measured at amortised cost or at fair value through other comprehensive income, subject to the assessment of the business model in which it is held. The amendments have no effect on the financial position or performance of the Fund.

IAS 28 Investments in associates (Amendments): Long-term Interests in Associates and Joint Ventures
The amendments are effective for annual periods beginning on or after 1 January 2019 with earlier application permitted. The Amendments clarify that an entity applies IFRS 9 Financial Instruments to long-term interests in an associate or joint venture that, in substance, form part of the net investment in the associate or joint venture but to which the equity method is not applied. An entity applies IFRS 9 to such long-term interests before it applies IAS 28. In applying IFRS 9, the entity does not take account of any adjustments to the carrying amount of long-term interests that arise from applying IAS 28. The amendments have no effect on the financial position or performance of the Fund.

2.3 Changes in accounting policy and disclosures (continued)

New and amended standards and interpretations (continued)

IAS 19 Employee Benefits (Amendments): Plan Amendment, Curtailment or Settlement
The amendments are effective for annual periods beginning on or after 1 January 2019 with earlier application permitted. The amendments require entities to use updated actuarial assumptions to determine current service cost and net interest for the remainder of the annual reporting period after a plan amendment, curtailment or settlement has occurred. The amendments also clarify how the accounting for a plan amendment, curtailment or settlement affects applying the asset ceiling requirements the amendments have no effect on the financial position or performance of the Fund.

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

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

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

3. Significant accounting judgments, estimates and assumptions

Judgments

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

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

- ***Principal versus agent considerations***

The Fund enters into contracts with its customers to provision of electricity, water and heating to its tenants, as well as these related to reinvoicing of improvements of leased areas, at the expense of the tenants. It is not within the business strategy of the Fund to provide such type of services and thus, the substance of those arrangements is that the Fund acts as an agent of the ultimate provider of the service vis-à-vis its tenants. The Fund determined that it does not control the services before they are transferred to customers, and it does not have the ability to direct the use of the services or obtain benefits from the services. The following factors indicate that the Fund does not control the services before they are being transferred to customers. Therefore, the Fund determined that it is an agent in these contracts.
• The Fund is not primarily responsible for fulfilling the promise to provide the specified services.
• The Fund has no discretion in establishing the price for the specified services.
Thus, the Fund presents the expenses related to provision of electricity, water and heating, as well as these related to improvements of leased areas, at the expense of the tenants net of the re-invoiced amounts received from tenants.

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

Judgments (continued)

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

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

Leases

- ***Determining whether a contract contains leases or leasing elements***

When identifying and classifying a lease or lease element in a contract, the Fund shall assess whether the contract contains an identified asset and whether it transfers control over the use of the same asset for the relevant contractual term.

Fund as a lessor
The Fund has concluded leasing contracts for commercial and office space of the properties it owns. Management believes that the Fund retains all material risks and rewards of ownership of these properties and therefore the contracts are treated as operating leases. Further information is provided in Note 17.

Fund as a lessee
The Fund is a party to a real estate lease agreement - an office space. To this end, management has assessed and concluded that, within the scope of its right of use specified in the lease agreement, the Fund has the right to make appropriate decisions about how and for what purpose the asset is used, being able to determine the hours and persons who have access to it, i.e. it has control over usage.

- ***Defining the term of leases with options for renewal and termination***

The Fund defines the lease term as the non-cancellable lease period, together with (a) the periods for which there is an option to extend the lease, if it is reasonably certain that the Fund will exercise that option, and (b) the periods for which there is an option to terminate the lease if it is reasonably certain that the Fund will not exercise this option.

The Fund is a contractual lessee, which includes an extension and termination option. Its management applies judgment in determining whether it is reasonably certain that it will exercise the extension or termination option, taking into account all the facts and circumstances that create economic incentives to exercise the extension option or not to exercise the termination option (such as significant improvements to the underlying asset and significant adjustments and personalization of the underlying asset).

After the commencement date of the lease, the Fund reassesses the term of the contract always, in the event of an significant event or a significant change in the circumstances, which is under its control and affects how reasonably certain that the Fund will exercise an option that was not reflected in the term or will not exercise an option that was previously reflected in the term of the contract.

The Fund did not include an extension option as part of an office lease with non-cancellable term (three years) because it was considered that it is not reasonably certain to exercise its renewal options for that contract. In addition, termination options are included as part of the lease term when the Fund has a reasonable assurance that it will not exercise those options. Therefore, the term for this office space contract is up to 3 years.

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

Judgments (continued)

Leases (continued)

- ***Determination of the differential interest rate of leases in which the Fund is a Lessee***

In cases where the Fund is a lessee and cannot directly determine from the contracts the implicit interest rate it needs to discount the lease obligations, it uses the differential interest rate it would pay if it borrowed the funds needed to obtain the asset with a similar value of the right to use asset, for a similar period of time, with similar collateral and in a similar economic environment. For contracts for which the Fund has no similar financing, it seeks observable data such as market rates of credit and banking statistics that are publicly available and make specific calculations and adjustments to reflect its own credit rating based on an internally developed risk methodology coefficients (based on information from interest statistics and interest rates offered by the service banks on similar loans).

- ***Review of impairment indicators for asset-by-use assets***

As of each reporting date, the Fund's management reviews the impairment of the rights to use assets. If there are indicators that the estimated recoverable amount is lower than their carrying amount, the latter is written down to the recoverable amount of the assets.
The Fund has reviewed and found that there are no indicators of impairment as of 31.12.2019.

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, l-m) above.

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

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

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.

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

Estimates and assumptions (continued)

Provision for expected credit losses of trade receivables

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

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

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

Fair Value of Investment Properties

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

Effects of the declared emergency on COVID-19

The Coronavirus (COVID-19) was confirmed by the World Health Organization in early 2020 and spread from China worldwide, causing disruption to normal business activities. On March 13, 2020, the National Assembly of the Republic of Bulgaria declared a state of emergency in the country due to the coronavirus and increased anti-epidemic measures and restrictions were introduced.

Management has assessed the spread of the infection as a non-adjusting event occurring after the reporting date. At the date of issue of this report, management does not believe that the current situation would change management's judgements and estimates (including going concern), but it is expected to have an effect on future operating performance and future fair value estimates of the Fund's properties.

As the pandemic situation develops extremely quickly, it is virtually impossible to make a reliable assessment and measurement of the potential effects of the pandemic. The management will continue to monitor the situation and take all possible steps to reduce the possible consequences.

Additional disclosures are presented in Note 20.

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

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

IFRS 17*: Insurance Contracts*

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

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

IFRS 3 *Business combinations (Amendments): Definition of a business*
The amendments are effective for annual periods beginning on or after 1 January 2020 with earlier application permitted. The amendments clarify the minimum requirements for a business and narrow the definition of a business. The amendments also remove the assessment of whether market participants are capable of replacing any missing elements, add guidance to help entities assess whether an acquired process is substantive and introduce an optional fair value concentration test. These amendments have not yet been endorsed by the EU. The Fund is in the process of assessing the impact of these amendments on its financial position or performance.

Amendments to* IAS 1 *Presentation of Financial Statements and* IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors: Definition of 'material'
The amendments are effective for annual periods beginning on or after 1 January 2020 with earlier application permitted. The amendments clarify the definition of material and how it should be applied by including in the definition guidance that until now has featured elsewhere in IFRS Standards. The amendments also specify that materiality will depend on the nature or magnitude of information. The Fund is in the process of assessing the impact of these amendments on its financial position or performance.

The Conceptual Framework for Financial Reporting
The IASB issued the revised Conceptual Framework for Financial Reporting on 29 March 2018, which is effective for annual periods beginning on or after 1 January 2020. The Conceptual Framework sets out a comprehensive set of concepts for financial reporting, standard setting, guidance for preparers in developing consistent accounting policies and assistance to others in their efforts to understand and interpret the standards. The main amendments introduced in the revised Conceptual framework for financial reporting are related to measurement, including factors, which should be considered when choosing measurement basis, and to presentation and disclosure, including income and expenses which should be classified in other comprehensive income. The Conceptual framework also provides updated definitions for asset and liability and criteria for their recognition in the financial statements. The Fund is in the process of assessing the impact of these amendments on its financial position or performance.

Interest Rate Benchmark Reform - IFRS 9, IAS 39 and IFRS 7 (Amendments)
The amendments are effective for annual periods beginning on or after 1 January 2020 and must be applied retrospectively. Earlier application is permitted. In September 2019, the IASB issued amendments to IFRS 9, IAS 39 and IFRS 7, which concludes phase one of its work to respond to the effects of Interbank Offered Rates (IBOR) reform on financial reporting. Phase two will focus on issues that could affect financial reporting when an existing interest rate benchmark is replaced with a risk-free interest rate (an RFR). The amendments published, deal with issues affecting financial reporting in the period before the replacement of an existing interest rate benchmark with an alternative interest rate and address the implications for specific hedge accounting requirements in IFRS 9 Financial Instruments and IAS 39 Financial Instruments: Recognition and Measurement, which require forward-looking analysis. The amendments provided temporary reliefs, applicable to all hedging relationships that are directly affected by the interest rate benchmark reform, which enable hedge accounting to continue during the period of uncertainty before the replacement of an existing interest rate benchmark with an alternative nearly risk-free interest rate. There are also amendments to IFRS 7 Financial Instruments: Disclosures regarding additional disclosures around uncertainty arising from the interest rate benchmark reform. The Fund is in the process of assessing the impact of these amendments on its financial position or performance.

5. Income and expenses

5.1. Revenue

	2019	2018
	EUR thousand	*EUR thousand*
Rental income from investment properties	3,342	3,086
Revenue from contracts with customers - Service charge	409	369
	3,751	**3,455**

5.2. Revenue from external customers

a) Geographical information

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

b) Information for major customers

	Type of income	2019		2018	
		EUR thousand	*Percentage of the relevant income*	*EUR thousand*	*Percentage of the relevant income*
Customer 1	Rent	1,122	34%	1,101	36%
Customer 2	Rent	980	29%	927	30%
Customer 2	Service charge	188	46%	177	47%
Customer 3	Rent	295	9%	283	9%
Customer 3	Service charge	52	13%	51	14%
Customer 4	Rent	275	8%	270	9%
Customer 4	Service charge	48	12%	47	14%

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

5.3. Other income

Other revenues mainly reflect revenues from the management of the Sequoia 2 residential building in Borovets resort.

5. Income and expenses (continued)

5.4. Direct operating expenses arising from properties

	2019	2018
	EUR thousand	*EUR thousand*
Direct operating expenses arising from properties that generated rental income		
Investment properties	(568)	(539)
	(568)	**(539)**
Direct operating expenses arising from properties that did not generate rental income		
Investment property held for sale	(61)	(35)
Investment properties	(23)	(25)
	(83)	**(60)**
Total direct operating expenses arising from properties	**(652)**	**(599)**

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

	2019	2018
	EUR thousand	*EUR thousand*
Service charge expenses	(230)	(240)
Local taxes and fees	(189)	(175)
Repair and maintenance	(145)	(114)
Fees for sundry services	(39)	(41)
Other	(49)	(29)
	(652)	**(599)**

5.5. Other expenses

	2019	2018
	EUR thousand	*EUR thousand*
Audit fee	(11)	(11)
Fees for sundry services	(23)	(23)
Depreciation	(11)	(4)
Bank charges	(1)	(1)
Other	(15)	(23)
	(61)	**(62)**

6. Properties

6.1. Investment property

	Agricultural land	Non-agricultural land	Commercial and office properties	Properties under construction	Total
	EUR thousand	*EUR thousand*	*EUR thousand*	*EUR thousand*	*EUR thousand*
At 1 January 2018	**248**	**5,306**	**31,268**	**5,008**	**41,830**
Additions	-	-	70	378	448
Transfer from properties under construction	-	-	63	(63)	-
Net gains/(losses) from fair value adjustments	8	(228)	1,441	90	1,311
At 31 December 2018	**256**	**5,078**	**32,842**	**5,413**	**43,589**
At 1 January 2019	**256**	**5,078**	**32,842**	**5,413**	**43,589**
Additions	-	-	40	4,328	4,368
Net gains/(losses) from fair value adjustments	1	(102)	295	73	267
Disposals	(252)	-	-	-	(252)
At 31 December 2019	**5**	**4,976**	**33,177**	**9,814**	**47,972**

Properties under construction

Property under construction as of December 31, 2019 includes the fair value of the costs incurred in connection with the acquisition of the right to build in Zone 2 of the Science and Technology Park Building Plan, Sofia, research and design activities, as well as a fee for the building permit issued. In 2019 construction activities were started - excavation and strengthening works, rough construction.

Fair value measurement

The Fund engaged an accredited external appraiser to fair value its investment properties, including non-agricultural land held for sale. The effective date of the valuations was 31 December 2019. Fair values were estimated by applying the following valuation methods:

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

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

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

6. Properties (continued)

6.1. Investment property (continued)

Fair value measurement (continued)

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

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

	2019	2018
	EUR thousand	*EUR thousand*
Investment properties valued under capitalization of income method	42,992	38,256
Including fair value of adjacent land valued under market comparable method	*8,130*	*8,233*
Investments properties valued under market comparative method	4,980	5,333
Total investment properties at fair value	**47,972**	**43,589**

6. Properties (continued)

6.1. Investment property (continued)

Significant assumptions used in fair value measurement of investment properties

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

	Valuation technique	Significant unobservable inputs	2019	2018
Commercial and office properties	Capitalization of income method/ Market comparable method	Gross rental income – EUR per month – commercial property 1	61,340	61,340
		Gross rental income – EUR per month – commercial property 2	43,285	43,285
		Gross rental income – EUR per month –office property 1	91,375	90,345
		Gross rental income – EUR per month –office property 2	112,115	110,250
		Vacancy risk - % of gross rent income	12.15%-12.55%	12.15%-13.5%
		Capitalization rate (discount rate)	9%	9%
		Adjustment for illiquidity of the land	-15%	-15%
		Adjustments for specific input parameters of the land	*	*
Properties under construction	Capitalization of income method	Forecasted gross rental income - EUR per month	431,230	409,441
		Vacancy risk - % of gross rent income	12.3%	10.5%
		Capitalization rate (discount rate)	8%	9%
		Expected costs for completion of the project	**	**
Agricultural lands	Market comparable method	Adjustments for specific input parameters	*	*
Non-agricultural lands, including non-agricultural land held for sale	Market comparable method	Adjustment for illiquidity	-15%	-15%
		Adjustments for specific input parameters	*	*

*- The adjustments for specific input parameters are related to location, size, accessibility, infrastructure, potential of development of the zone and other and range according to the comparable property.
**- The expected costs for completion of the project are calculated on the basis of the total budget for the construction of business investment property in Science and Technology Park, Sofia, reduced by the costs incurred as of 31 December 2019.

Sensitivity Analysis

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

6. Properties (continued)

6.1. Investment property (continued)

Significant assumptions used in fair value measurement of investment properties

Other disclosures

As of December 31, 2019, investment property with fair value of EUR 11,770 thousand (December 31, 2018 - BGN 11,496 thousand) is subject to a mortgage for securing long-term interest-bearing loans of the Fund (Note 11).

6.2. Investment property held for sale

	Vacation property	Total
	EUR thousand	*EUR thousand*
At 1 January 2018	**782**	**782**
Losses from fair value adjustments	(13)	(13)
Sale of property	(43)	(43)
At 31 December 2018	**726**	**726**
At 1 January 2019	**726**	**726**
Profit from fair value adjustments	25	25
Sale of property	(26)	(26)
At 31 December 2019	**725**	**725**

Held-for-sale investment property (which was not the subject of development at the time of change of purpose) is carried at fair value. It is determined by an independent licensed appraiser using the market comparison method. The effective date of the valuation is 31 December 2019. Changes in the fair values of property held for sale are recognized in the income statement.
The significant assumptions used in estimating the fair values of investment property held for sale are set out below:

	Valuation technique	**Significant unobservable inputs**	**2019**	**2018**
Vacation property	Market comparable method	Adjustment for illiquidity (apartments and garage spaces)	(45%) And (10%)	(37%) And (10%)
		Adjustment for illiquidity (land)	(25%)	(20%)
		Adjustments for specific input parameters	*	*

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

Sensitivity Analysis

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

6. Properties (continued)

6.2. Investment property held for sale (continued)

Other disclosures – Vacation property held for sale

Investment properties held for sale as of 31 December 2019 and 31 December 2018 consist of vacation property and land related to it. The property was bought in 2007, but due to lower interest from potential buyers due to the financial crisis and its impact on the market for vacation properties, the Fund failed to realize the property despite its active marketing campaign. The Fund intends to continue working actively towards the sale of the property in the next years.
In 2019 and 2018, due to the illiquidity of the real estate market and the lack of information on the parameters of specific transactions (except for the sale of own apartments on the same property in June 2016 and the sale of two apartments in 2018) in the fair value measurement are used bid prices for comparable properties adjusted for the specific characteristics of the properties held for sale by the Fund, as well as prices for the realized own sales.
The fair value hierarchy of the Fund's investment properties and investment properties held for sale are disclosed in Note 19.

7. Deferred expenses

	2019	2018
	EUR thousand	*EUR thousand*
Prepaid fees	50	22
Insurance	9	9
	59	**31**

8. Trade and other receivables

	2019	2018
	EUR thousand	*EUR thousand*
Rental income receivable	202	147
Provision for expected credit losses	(3)	-
Rental income receivable, net	**199**	**147**
VAT Receivables	105	-
Consumables receivable	40	29
Prepayments to suppliers	12	8
Deposits granted	9	10
Receivables from contracts with customers	5	10
Prepayments to the Management fund	-	32
Other receivables	43	-
	413	**236**

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

- Rental receivables from lease of commercial/office premises – 60 days 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).

8. Trade and other receivables (continued)

In 2019, no past due receivables were written off - more than five years had passed since the receivables became due.

As at 31 December 2019 and 2018, the ageing analysis of trade and other receivables is as follows:

			Past due but not impaired				
	Total	Neither past due nor impaired	< 30 days	30-60 days	60-90 days	90-120 days	>120 days
	EUR thousand	*EUR thousand*	*EUR thousand*	*EUR thousand*	*EUR thousand*	*EUR thousand*	*EUR thousand*
2019	253	82	78	57	2	24	10
2018	186	8	94	65	13	2	4

9. Cash, cash equivalents and restricted cash

	2019	2018
	EUR thousand	*EUR thousand*
Cash at bank and in hand	11,468	15,810
Short-term deposits	12	12
Total Cash and cash equivalents	**11,480**	**15,822**

Cash in bank accounts is accrued at floating interest rates based on daily interest rates on bank deposits. Short-term deposits as of 31 December 2019 are 12 thousands EUR (2018: 12 thousands EUR). They are charged at agreed fixed interest rates. Deposits can be withdrawn from the Fund upon request.

The following table summarizes changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes by providing a reconciliation between the opening and closing balances in the statement of financial position for liabilities arising from financing activities for the year ended 31 December 2019.

	1 January 2019	At 1 January 2019, after initial adoption of IFRS 16	Cash outflows (principal)	Cash outflows (interest)	Effective interest rate accruals	Provision for dividends due	31 December 2019
	EUR thousand	*EUR thousand*	*EUR thousand*	*EUR thousand*	*EUR thousand*	*EUR thousand*	*EUR thousand*
Interest-bearing loans and borrowings	4,612	-	(599)	(140)	140	-	**4,014**
Lease liabilities	-	24	(7)	(1)	1	-	**17**
Dividends payable	1,765	-	(1,764)	-	-	2,199	**2,200**
Total liabilities from financing activities	**6,377**	**24**	**(2,369)**	**(141)**	**141**	**2,199**	**6,231**

9. Cash, cash equivalents and restricted cash (continued)

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

10. Share capital, share premium and reserves

10.1. Share capital

Authorized and fully paid

	2019	2018
	EUR thousand	*EUR thousand*
Ordinary shares of EUR 0.551 each (BGN1) (2018: EUR 0.551 each (BGN 3 each))	17,712	17,712
	17,712	**17,712**

Ordinary shares	Number of shares	Amount
	Thousand	*EUR thousand*
Authorized, issued and fully paid		
At 1 January 2018	20,150	30,907
Decrease in nominal value of shares from EUR 1.534 each (BGN 3 each) to EUR 0.511 each (BGN 1 each)	-	(20,605)
Increase in share capital	14,492	7,410
At 31 December 2018	**34,642**	**17,712**
At 31 December 2019	**34,642**	**17,712**

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

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

As of 31 December 2019 share capital of Fund is 17,712 thousands EUR (34,642 shares with nominal value 0.511 EUR).

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 2019 is as follows:

	Number of shares (thousand)	Shareholding percentage
ZYPF Allianz Bulgaria	2,397	6.92%
UPF DSK Rodina AD	2,363	6.82%
NN Universal Pension Fund	2,311	6.67%
Universal Pension Fund Doverie AD	1,754	5.06%
NN Voluntary Pension Fund	1,394	4.02%
Nikolay Bogdanov Iliev	1,100	3.18%
MNI OOD	1,068	3.08%
Anri Moys Levi	779	2.25%
NN Professional Pension Fund	773	2.23%
Swedbank AS Clients	755	2.18%
UPF Pension Insurance Institute	706	2.04%
Mibo Consult EOOD	661	1.91%
Nikolay Sergeevic Dragomiretski	649	1.87%
PFK DSK Rodina AD	636	1.84%
Chavdar Ivanov Donkov	599	1.73%
Expat Bulgaria Sofix UCITS ETF	539	1.56%
Todor Ludmilov Breshkov	537	1.55%
DPF Allianz Bulgaria	499	1.44%
Shareholders with under 1.4%	15,121	43.65%
	34,642	**100%**

10.2. Share premium

As at 31 December 2019 the share premium reserve amounts to 30,361 EUR thousand (2018: EUR 30,361 thousand), representing the excess of the proceeds of the issue of new shares in 2006 and 2018 over their nominal value and the decrease of nominal value of shares from EUR 1.534 each (BGN 3 each) to EUR 0.511 each (BGN 1 each) in 2018. The share premium reserve can only be utilized for covering current or prior year losses and under specific conditions for increase of the registered capital.

	2019	2018
	EUR thousand	*EUR thousand*
At 1 January	30,361	3,245
Decrease in nominal value of shares from EUR 1.534 each (BGN 3 each) to EUR 0.511 each (BGN 1 each)	-	20,605
Increase in share capital	-	6,669
Transaction costs related with increase in share capital	-	(158)
At 31 December	**30,361**	**30,361**

11. Long-term interest bearing loans

	Nominal interest rate %	Maturity	2019	2018
Current portion			*EUR thousand*	*EUR thousand*
Investment bank loan with maximum permitted limit of BGN 11,000 thousand	3.1% + BIR*	December 2025	618	598
Interest payable			3	4
Adjustment to amortized cost			(2)	(2)
			619	**600**

	Nominal interest rate %	Maturity	2019	2018
Non-current portion			*EUR thousand*	*EUR thousand*
Investment bank loan with maximum permitted limit of BGN 11,000 thousand	3.1% + BIR*	December 2025	3,405	4,024
Adjustment to amortized cost			(10)	(12)
			3,395	**4,012**

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

Investment bank loan with maximum permitted limit of EUR 5,624 thousand (BGN 11,000 thousand)
On 18 January 2016 the Fund signed an agreement for investment bank loan with Eurobank Bulgaria AD with maximum permitted limit of BGN 11,000 thousand (EUR 5,624 thousand), utilized in tranches. The purpose of the loan is to finance the construction of business investment property – office building in Sofia, Vitosha region, Malinova dolina. The term of the agreement is 10 years with one year grace period for the principal. The loan is secured by a mortgage over the office property with total fair value as of 31 December 2019 amounting to EUR 11,770 thousand (31.12.2018: EUR 11,496 thousand), pledge on all current and future receivables related to contracts for operating lease with the office property. The loan is repayable in monthly instalments due on the 21 of each month. Analysis on the maturity structure of the loan, based on the contractual undiscounted payments is presented in Note 18. As of 31 December 2019 and 2018 the loan is fully utilized.

Under the investment bank loan agreement, until the repayment of the loan the Fund has an obligation to maintain a Debt Service Coverage Ratio, calculated as the ratio between operating profit (representing the difference between rental income and service charge realized during the period and the direct operating expenses arising from properties, without taking into account the cost related to revaluation of properties over the same period) to the sum of the payments due in regards to principal, interest, taxes and commissions on all loans to financial institutions – higher than 1.2. As of 31 December 2019 the Fund complies with the required ratio.

12. Provision for dividends due

	2019	2018
	EUR thousand	*EUR thousand*
Provision for dividends due	2,160	1,733
Provision for withholding tax	39	32
	2,199	**1,765**
Adjusted weighted average number of ordinary shares (in thousand)	34,642	22,373
Dividend per share, gross (in Euro)	**0.0635**	**0.079**

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

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

The above provision requires the Fund to make estimations related to the allocation of initial and subsequent acquisition costs of the investment properties, when at the end of the reporting period only part of the property is sold, or when there is a change in the regulation status of part of the investment property owned. When the initial and subsequent acquisition costs cannot be directly allocated to the part of the property sold, the Fund uses appropriate for the particular situation allocation base, such as sold square meters compared to the total area of the property, fair value of the sold part of the property compared to the fair value of the whole property as determined at the date of purchase and others. The table below presents the initial and subsequent acquisition costs of the investment properties owned by the Fund as of 31 December 2019 and 31 December 2018:

12. Provision for dividends due (continued)

	2019		2018	
	Initial and subsequent acquisition cost	Fair value	Initial and subsequent acquisition cost	Fair value
	EUR thousand	*EUR thousand*	*EUR thousand*	*EUR thousand*
Investment properties				
Office building - Kambanite	8,968	11,770	8,967	11,496
Office building – Business Park Sofia	7,472	9,655	7,438	9,610
Bricolage Sofia	6,130	7,009	6,124	6,993
Construction right - Science and Technology Park Sofia	9,786	9,814	5,457	5,414
Investment properties - Sofia - Mladost IV	4,817	1,781	4,817	1,781
Bricolage Varna	4,316	4,743	4,316	4,743
Investment property - Tsarevo	2,254	1,937	2,254	2,041
Investment property - Vidin	301	634	301	631
Investment property - V. Tarnovo	192	624	192	624
Agricultural land	1	5	58	256
Investment property held for sale				
Vacation property - Borovets	1,583	725	1,627	726
Total	**45,820**	**48,697**	**41,551**	**44,315**

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

Based on the Fund's financial performance for the year ended 31 December 2019 dividend distribution was considered on the basis of operational and legal considerations. As a result, the Fund recognised provision for dividends at the basis 90% thousand (2018: 90%) from profit for the year adjusted as per the requirements of ASIPC, which the Fund had legal obligation to distribute, as a minimum, at the reporting date as of amount 2,199 thousand EUR (2018: 1,765 thousand EUR)

13. Trade and other payables

	2019	2018
	EUR thousand	*EUR thousand*
Payables to the Management Fund	172	191
- management fee payable	60	52
- payables related to construction works	93	118
- other payables	19	21
Received deposits by tenants	156	131
Prepayments by clients	78	73
VAT payables	-	13
Payables to suppliers	12	8
Accrued liabilities for claims	2	2
Liability for personnel	4	-
Liability for non-paid dividends	1	1
Liabilities to insurers	25	
Other payables	53	42
	503	**460**

Terms and conditions of the financial liabilities are:

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

Other disclosures

Guarantees for qualitative fulfilment of contractual obligations -retentions
According to the subcontracts, in connection with its investment projects, the Fund retains certain amounts as a guarantee for quality execution of the construction works. The amounts withheld are determined as a percentage of the value of the invoiced construction work. They are interest-free and payable until 2021. Upon initial recognition, the amounts withheld are measured at the present value of the related future cash flows. As of 31 December 2019, the short-term portion of the debt withheld amounted to 49 thousands EUR. and is presented as part of Construction Contract Liabilities (2018: 79 thousand EUR). As of 31 December 2019, the Fund has no long-term debt withheld amounts for quality performance under contracts (2018: no long-term liabilities).

14. Related party disclosures

During the year, the Fund entered into transactions with related parties. These transactions along with the related balances as at 31 December 2019 and 2018 are presented below.

14.1. Fees and payables to Management Fund

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

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

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

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

For 2019 management fees charged were EUR 548 thousand (2018: EUR 572 thousand).

For 2019 the success fee was charged by the Management fund with EUR 15 thousands (2018: nil).

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

14.2. Directors' remunerations and Board expenses

The Directors are entitled to remuneration for their services at rates determined by the General Meeting of Shareholders. In addition, Directors are reimbursed for reasonable travelling, hotel and other incidental expenses in respect of attending meetings of the Directors or General Meetings of the Fund. The Director's remunerations vary from one to ten minimal monthly salaries for Bulgaria. For the year ended 31 December 2019 Directors' remunerations were EUR 60 thousand, including social securities in the amount of EUR 5 thousand (2018: EUR 58 EUR thousand, including social securities in the amount of 5 EUR thousand).

15. Earnings per share

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

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

15. Earnings per share (continued)

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

	2019	2018
	EUR thousand	*EUR thousand*
Profit for the year	2,560	3,281
Adjusted weighted average number of ordinary shares (in thousand)	34,642	22,373
Basic earnings per share (in Euro)	**€ 0.074**	**€ 0.147**

There have been no other transactions involving ordinary shares or potential ordinary shares between 31 December 2019 and the date these financial statements have been authorised for issue.

16. Commitments

Commitments under construction agreements

In accordance to the budget related to the construction of investment property, the value of the construction work is expected to amount to EUR 37 mil.

17.Leases

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 2019 are as follows:

	2019	2018
	EUR thousand	*EUR thousand*
Within one year	1,122	1,122
From one to three years	1,122	2,295
	2,244	**3,417**

In March 2020, the Fund concluded annexes to existing contracts extending the term by another 5 years until the end of 2026. As a result of the new arrangements, the future undiscounted operating lease proceeds of the outlets for the period from 1 to 5 years are worth - EUR 3,240 thousand and over 5 years - EUR 2,160 thousand.

17. Leases (continued)

Operating lease commitments – Fund as a lessor (continued)

Leasing of office properties (investment properties)
After the purchase of two investment properties representing an office building, the Fund has taken over/ entered into lease agreements for office space with an initial period of up to six years. The lease agreements include various options for termination, increase of the lease payments and provisions for renewal of the lease term. In 2018 the Fund signed 2 new leases agreements with term 5 years.
In 2019, the Fund entered into additional agreements to extend the term of two operating leases until 31 October 2024 and 5 January 2023. Additional parking spaces and office space were leased from existing tenants.

The Fund's principal leases are secured by bank guarantees or deposits received in the amount of two to three gross monthly rents.

As at 31 December, the maturity analysis of future undiscounted operating lease income by year is as follows:

	2019	2018
	EUR thousand	*EUR thousand*
Within one year	2,227	2,153
After one year but not more than five years	4,996	4,225
More than five years	1,146	52
	8,369	**6,430**

The Fund has no practice of entering into contracts with variable lease payments other than indices and rates. The revenue from fixed lease payments included in the income statement is presented in Note 5.1.

Lease of agricultural and non-agricultural land (investment properties)
The Fund has entered into operating lease agreements of agricultural and non-agricultural land. These leases have terms between 1 and 10 years.
Future minimum rentals receivable under non-cancellable operating leases of agricultural land as at 31 December are as follows:

	2019	2018
	EUR thousand	*EUR thousand*
Within one year	-	6
After one year but not more than five years	-	15
More than five years	-	2
	-	**23**

In 2019, the Fund sold a large part of its agricultural land.

17. Leases (continued)

Operating leasing - The Fund as a lessee

Assets and liabilities recognized in the statement of financial position
The Fund uses a rented office space for its activities.
The right of use asset is included in the statement of financial position and represents

	Buildings
	2019
	EUR '000
Cost	
As of 1 January 2019, after adoption of IFRS 16	24
Increase/Additions	-
Decrease/disposals	-
As of 31 December 2019	**24**
Accumulated Depreciation	
As of 1 January 2019, after adoption of IFRS 16	-
Depreciation for the year	8
Depreciation written-off	-
As of 31 December 2019	**8**
Carrying amount on 1 January after transition to IFRS 16 (Note 2.3)	**24**
Carrying amount as of 31 December 2019	**16**

The lease obligations at December 31 are as follows:

	2019
	EUR'000
As of 1 January 2019, after adoption of IFRS 16 (Note 2.3)	**24**
Increase	-
Interest	-
Payments	(7)
As of 31 December 2019	**17**
Long term part	**9**
Short term part	**8**

The maturity analysis of leasing liabilities is disclosed in Note 18.

Amounts included in the income statement
The income and expenses under the leasing contracts for the reporting year are:

	2019	***2018*****
	EUR'000	***EUR'000***
Depreciation expense on rights to use assets (reported under IFRS 16)	8	-
Interest expense on leasing liabilities (reported under IFRS 16)	1	-
Operating lease expenses (reported under IAS 17)	-	12

** In the previous year, the Fund recognized lease amounts as 'operating leases' under IAS 17 Leases. Note 2.3 provides information related to the transition to IFRS 16 on 1 January 2019.

18. Financial risk management objectives and policies

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

	31.12.2019
	EUR '000
Financial assets	
Financial assets at amortised cost	**11,765**
Receivables (Note 8)	*285*
Cash and cash equivalents (Note 9)	*11,480*
Total financial assets	***11,765***
Financial liabilities	
Financial liabilities at amortised cost	**4,295**
Long term bank loans (Note 11)	*4,014*
Trade and other liabilities (Note 13)	*263*
Lease liability (Note 17)	*17*
Total financial liabilities	***4,294***

The structure of the financial assets and liabilities as at 31.12.2018 is as follows:

	31.12.2018
	EUR '000
Financial assets	
Financial assets at amortised cost	**16,008**
Receivables (Note 8)	*186*
Cash and cash equivalents (Note 9)	*15,822*
Total financial assets	***16,008***
Financial liabilities	
Financial liabilities at amortised cost	**4,984**
Long term bank loans (Note 11)	*4,612*
Trade and other liabilities (Note 13)	*372*
Total financial liabilities	***4,984***

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

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

18. Financial risk management objectives and policies (continued)

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

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

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

	Increase/decrease in points basis	**Effect on profit**
		EUR thousand
2019		
Loans in BGN	+100	(40)
Loans in BGN	-100	40

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

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 2019	On demand	Less than 3 months	3 to 12 months	1 to 5 years	> 5 years	Total
	EUR thousand	*EUR thousand*	*EUR thousand*	*EUR thousand*	*EUR thousand*	*EUR thousand*
Investment bank loan with maximum permitted limit of BGN 11,000 thousand	-	185	554	2,952	738	4,429
Trade and other payables	119	144	-	-	-	263
	119	**329**	**554**	**2,952**	**738**	**4,692**

18. Financial risk management objectives and policies (continued)

Liquidity risk (continued)

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

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

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

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

The Fund’s maximum exposure to credit risk in the event the counterparties fail to perform their obligations as at 31 December 2019 in relation to each class of recognized financial assets is the carrying amount of those assets as indicated in the statement of financial position.

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

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

18. Financial risk management objectives and policies (continued)

Credit risk (continued)
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 2019 the cash and long-term deposits of the Fund are deposited in banks with the following credit rating:

	EUR thousand	*Credit Rating*
Bank 1	11,468	BBB-
Bank 2	12	BBB

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

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

	2019	2018
	EUR thousand	*EUR thousand*
Share capital	17,712	17,712
Share premium	30,361	30,361
Retained earnings	5,860	5,499
Total equity	**53,933**	**53,572**
Investment properties, including held for sale	48,697	44,315
Long-term interest bearing loans (long and short-term portion)	4,014	4,612
Equity to long-term debt	13.43	11.61
Investment properties, including held for sale to equity	0.9	0.83
Market capitalization	35,070	33,653

19. Fair value measurement

The following table provides the fair value measurement hierarchy of the Fund's assets and liabilities as of 31 December 2019.

			Fair value measurement using		
	Date of valuation	**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	31.12.2019	11,752	-	-	11,752
Non-agricultural lands	31.12.2019	4,976	-	-	4,976
Properties under construction	31.12.2019	9,814	-	-	9,814
Office properties	31.12.2019	21,425	-	-	21,425
Agricultural lands	31.12.2019	5	-	-	5
Investment properties held for sale (Note 6.2)					
Vacation properties	31.12.2019	725	-	-	725
Liabilities for which fair values are disclosed:					
Interest-bearing loans and borrowings (Note 11)					
Floating rate borrowings	31.12.2019	4,014	-	4,014	-

19. Fair value measurement (continued)

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

			Fair value measurement using		
	Date of valuation	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	31.12.2018	11,735	-	-	11,735
Non-agricultural lands	31.12.2018	5,077	-	-	5,077
Properties under construction	31.12.2018	5,414	-	-	5,414
Office properties	31.12.2018	21,107	-	-	21,107
Agricultural lands	31.12.2018	256	-	-	256
Investment properties held for sale (Note 6.2)					
Vacation properties	31.12.2018	726	-	-	726
Liabilities for which fair values are disclosed:					
Interest-bearing loans and borrowings (Note 11)					
Floating rate borrowings	31.12.2018	4,612	-	4,612	-

In 2019 and 2018 there have been no transfers between the levels of the fair value measurement hierarchy.

19. Fair value measurement (continued)

Fair value of financial instruments

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

	Carrying amount		*Fair value*	
	2019	2018	2019	2018
	EUR thousand	*EUR thousand*	*EUR thousand*	*EUR thousand*
Financial assets				
Trade and other receivables	285	186	285	186
Cash and short-term deposits	11,480	15,822	11,480	15,822
Financial liabilities				
Long-term interest bearing loans	4,014	4,612	4,014	4,612
Trade payables	263	372	263	372
Lease liability	17	-	17	-

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 approaches the carrying amounts due to the short-term nature of these instruments;

- The fair value of floating rate loans is estimated by discounting future cash flows using rates currently available for debt or similar terms and remaining maturities. The fair value approximates their carrying values gross of unamortized transaction costs. The own non-performance risk is assessed to be insignificant.

20. Events after the reporting date

- **Extended rental agreements**

At the beginning of March 2020, the Company signed additional agreements to the lease agreements of DOVERIE - BRICO AD for the extension of the lease terms for the DOVERIE - BRICOLAGE shopping centers located in Sofia and Varna. By signing the annexes, the lease term is extended by an additional 5 years until December 2026.

- **Declaring a state of emergency in Bulgaria**

The Coronavirus (COVID-19) was confirmed by the World Health Organization in early 2020 and spread by China worldwide, causing disruption to normal business activities. On March 13, 2020, the National Assembly of the Republic of Bulgaria declared a state of emergency in the country due to the coronavirus and increased anti-epidemic measures and restrictions were introduced.

At the date of preparation of the report, no cases of COVID-19 employees were registered with the Fund. There are no terminated contracts with customers and suppliers. There are no changes in the volume of revenues and the intensity of cash flows. The management takes all recommended measures to limit the spread of the infection, including by informing employees about the implementation of certain measures, providing protective equipment and disinfectants, restricting travel, limiting access of outsiders, promoting work from home.

20. Events after the reporting date (continued)

- **Declaring a state of emergency in Bulgaria (continued)**

Management has identified the COVID-19 pandemic as a non-adjusting event occurring after the reporting date. As the situation develops extremely fast, it is virtually impossible to make a reliable assessment and measurement of its potential effects and business consequences. It will continue to continuously monitor the development of the situation and the behaviour of the risk factors identified as related to the Company's business, assets and liabilities. It has introduced a crisis-based approach to functioning and is ready to take all possible short-term steps and measures to manage the risks and possible negative consequences of them. For this purpose, a crisis task force was formed. The management considers and prepares for its expected negative effects on business payments and the implementation of investment projects.

In addition to those disclosed above, no events have occurred after the reporting date until the date on which the financial statements are authorized for issue, which would require additional adjustments and / or disclosures in the financial statements of the Fund for the year ended 31 December 2019.

Bulgaria, Sofia, 1113,
3A Nikolay Haytov Str., fl. 1