

**ADVANCE TERRAFUND REIT**

INTERIM FINANCIAL STATEMENTS

30 September 2016

ADVANCE TERRAFUND REIT

STATEMENT OF FINANCIAL POSITION

AS AT 30 SEPTEMBER 2016

All amounts are given in BGN thousands unless indicated otherwise

	Note	As at 30.09.2016	As at 31.12.2015
<b>ASSETS</b>			
Non-current assets			
Investment property	4	196,183	203,576
Financial lease receivables	6	2,436	1,949
Non-current assets		<u>198,619</u>	<u>205,525</u>
Current assets			
Assets held for sale	5	10,616	5,003
Financial lease receivables	6	680	431
Rent and other receivables	7	3,242	2,369
Advances to suppliers	8	564	564
Cash and cash equivalents	9	19,844	22,967
Current assets		<u>34,946</u>	<u>31,334</u>
<b>TOTAL ASSETS</b>		<u>233,565</u>	<u>236,859</u>
<b>LIABILITIES</b>			
Non-current liabilities			
Commercial liabilities	10	2,526	-
Non-current liabilities		<u>2,526</u>	<u>-</u>
Current liabilities			
Commercial and other liabilities	10	5,909	7,129
Dividend liabilities	17	161	7,970
Provisions	10.A	55	329
Current liabilities		<u>6,125</u>	<u>15,428</u>
<b>TOTAL LIABILITIES</b>		<u>8,651</u>	<u>15,428</u>
<b>NET ASSETS</b>		<u>224,914</u>	<u>221,431</u>
<b>EQUITY</b>			
Share capital	11	85,110	85,110
Issue premiums		43,411	43,411
Retained profit		<u>96,393</u>	<u>92,910</u>
<b>TOTAL EQUITY</b>		<u>224,914</u>	<u>221,431</u>

The Financial Statements were approved by the Board of Directors and signed on behalf of Advance TerraFund REIT on 14 October 2016 by:

\_\_\_\_\_  
Radoslav Manolov  
Executive Director

\_\_\_\_\_  
Yoana Georgieva  
Compiler

The enclosed Notes from page 5 to page 26 form an integral part of these Financial Statements.

ADVANCE TERRAFUND REIT

STATEMENT OF COMPREHENSIVE INCOME  
FOR THE PERIOD ENDED 30 SEPTEMBER 2016

All amounts are given in BGN thousands unless indicated otherwise

	Note	For the period ended 30.09.2016	For the period ended 30.09.2015
Income from interests		132	118
Income from sales of investment property		9,834	3,135
Carrying amount of property sold		<u>(7,595)</u>	<u>(1,732)</u>
Income from the sale of property		2,239	1,403
Income from lease and rent of investment property	4	5,693	5,053
Other income		<u>337</u>	<u>66</u>
OPERATING INCOME		<u>8,401</u>	<u>6,640</u>
Expenses on hired services	12	(4,113)	(2,751)
Payroll expenses		(96)	(96)
Loss on subsequent valuation of investment property		(16)	(6)
Financial expenses		(1)	(2)
Other expenses		<u>(7)</u>	<u>(298)</u>
OPERATING EXPENSES		<u>(4,233)</u>	<u>(3,153)</u>
NET PROFIT		<u>4,168</u>	<u>3,487</u>
Other comprehensive income		<u>-</u>	<u>-</u>
TOTAL COMPREHENSIVE INCOME		<u>4,168</u>	<u>3,487</u>
Earnings per share (BGN)	16	0.05	0.04

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ADVANCE TERRAFUND REIT

CASH FLOW STATEMENT

FOR THE PERIOD ENDED 30 SEPTEMBER 2016

All amounts are given in BGN thousands unless indicated otherwise

	For the period ended 30.09.2016	For the period ended 30.09.2015
CASH FLOW FROM OPERATING ACTIVITIES		
Purchase of investment property	(6,150)	(13,410)
Payments related to business counterparties	(857)	(533)
Proceeds from rent and sales of investment property	15,686	8,956
Payments related to salaries	(105)	(105)
Interests received	31	173
Other cash flow from core activities	(3,351)	(2,519)
TOTAL CASH FLOW (USED FOR) /FROM OPERATING ACTIVITIES	<u>5,254</u>	<u>(7,438)</u>
CASH FLOW FROM FINANCING ACTIVITIES		
Cash flows related to payment of dividends	(8,376)	(25,135)
Other cash flow from financing activities	(1)	(2)
NET CASH FLOW USED FOR FINANCING ACTIVITIES	<u>(8,377)</u>	<u>(25,137)</u>
DECREASE IN CASH AND CASH EQUIVALENTS	(3,123)	(32,575)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD	9 <u>22,967</u>	<u>48,452</u>
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	9 <u>19,844</u>	<u>15,877</u>

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ADVANCE TERRAFUND REIT

STATEMENT OF CHANGES IN EQUITY  
FOR THE PERIOD ENDED 30 SEPTEMBER 2016

All amounts are given in BGN thousands unless indicated otherwise

	Share capital	Issue premiums	Retained earnings	Total
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
BALANCE AS AT 1 JANUARY 2015	85,110	43,411	69,688	198,209
Profit for 2015	-	-	33,750	33,750
Other comprehensive income	-	-	-	-
Total comprehensive income	<u>-</u>	<u>-</u>	<u>33,750</u>	<u>33,750</u>
Transactions with equity holders				
Dividend (Note 17)	-	-	(10,372)	(10,372)
Other changes			(156)	(156)
BALANCE AS AT 31 DECEMBER 2015	<u>85,110</u>	<u>43,411</u>	<u>92,910</u>	<u>221,431</u>
Profit for period ending on 30 September 2016	-	-	4,168	4,168
Other comprehensive income	-	-	-	-
Total comprehensive income	<u>-</u>	<u>-</u>	<u>4,168</u>	<u>4,168</u>
Transactions with equity holders				
Dividend (Note 17)			(685)	(685)
BALANCE AS AT 30 SEPT 2016	<u>85,110</u>	<u>43,411</u>	<u>96,393</u>	<u>224,914</u>

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## 1. BACKGROUND

### **Advance Terrafund REIT**

Advance Terrafund REIT (“The Company”) is a public joint-stock company established at the Constituent Assembly from 12 April 2005, with initial capital amounting to BGN 500 thousand, allocated into 500,000 shares with par value of BGN 1 each. The Company was re-registered with the Trade Register of the Registry Agency under UIC 131418187. The seat and management address of the Company are at 1 Zlatovruh Str., Sofia.

The Company’s subject of activity is investment of funds raised through public offering of securities in real estate (securitization of real estate) through purchase of right of ownership and other material rights on real estate and building constructions and improvements to them, with the purpose of their management, rental, leasing, and/or sale.

The special purpose legislation related to the activity of the Company is contained and arises mainly from the Act on the Special Investment Purpose Companies (ASIPC) and the Act on the Public Offering of Securities (APOS). On the basis of them the Company is subject to regulation by the Financial Supervision Commission (FSC). The Company obtained license № 10-ДСИЦ/08.12.2005, issued on the basis of Decision № 452-ДСИЦ from 14 July 2005 of the Financial Supervision Commission.

The Company has been established for an unlimited term.

The Company has a one-tier management system. The Board of Directors (BD) of the Company is composed of: Radoslav Iliev Manolov – Executive Director, Borislav Vitanov Petkov – Chairman of the BD and Nencho Invanov Penev – Member of the BD.

Karoll Finance EOOD is the servicing company of Advance Terrafund REIT, which as of 30 September 2016 is a shareholder holding 17,65% of the capital of Advance Terrafund REIT, rendering consultancy and other services, such as administrative, accounting and human resources services.

After the establishment of the company in 2005, five subsequent increases of the capital of the Company have been carried out, and as of 30 September 2016 the capital of the Company amounts to BGN 85,110,091.

### **Investment strategy, objectives and restrictions of the Company**

Advance Terrafund REIT is a joint-stock company with the special investment purpose of securitization of real state. The Company has the right to acquire material rights only on agricultural, urbanized and forestry real estate located on the territory of the Republic of Bulgaria. As per the Statutes of Advance Terrafund REIT adopted at the Constituency Assembly of the Company from 12 April 2005, its investment objectives are:

- Providing its shareholders with the opportunity to invest in a diversified portfolio of real estate, acting on the principle of risk allocation;
- Ensuring for its shareholders retention and increase of the value of their investments through the realization of a stable income under a balanced risk allocation.

## 1. BACKGROUND (CONTINUED)

The strategy of the Company provides for investments in real estate meeting the requirements of Article 9 of the Statutes of Advance Terrafund REIT with the objective of receiving current revenues from rental and leasing contracts, transferred right of use and from the sale of these estates, with a view of the formation of a stable income. In order to achieve its main objective the Company may apply appropriate strategies to safeguard against market and currency risks.

Financial objectives:

- Ensuring a steadily increasing current income for the shareholders in the form of cash dividend through renting out the owned land;
- Maximizing the value of the investments of the shareholders through continuous active management of the Company's assets and acquisition/sale of agricultural land;
- Diversification of the portfolio of agricultural lands through investment in various types of agricultural real estate (arable land, perennial plants, vineyards, etc.), located in various regions of the Republic of Bulgaria with the aim of reducing the non-systematic risks of the investment portfolio;
- Providing liquidity for the shareholders of the Company through listing of the shares of Advance Terrafund REIT for trade at Bulgarian Stock Exchange - Sofia;
- Making the necessary capital increases with the aim of structuring a balanced portfolio of real estate.

The investment policy of the Company provides that it invests the raised capital in real estate defined through their main and specific designation, as per the territory planning schemes and the detailed territory plan as follows:

- Real estates in urbanized territories /towns and villages / – designated for residential, public service, manufacturing, warehousing, resort, country housing, sports and entertainment functions;
- Real estate in agricultural territories – arable land /fields, orchards and vegetable gardens, vineyards, meadows, etc. / and non-arable lands;
- Land in forest territories – forests and forestry lands;

According to the investment policy of the Company the investments in land represent up to 90% of the carrying amount of the assets of the Company for the respective year, as per its annual financial statements.

The Company has the following options for investment of its free funds:

- Securities issued or guaranteed by the Bulgarian State and bank deposits – no restrictions;
- Mortgage bonds issued following the procedures and terms of the Mortgage Bonds Act – up to 10% of the Company's assets.

The Act on the Special Investment Purpose Companies also allows for investments of up to 10% of the Company in one or more servicing companies.

## **2. BASIS FOR DRAFTING OF THE FINANCIAL STATEMENTS**

The Company prepares and presents its financial statements on the basis of the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and the interpretations on their application issued by the International Financial Reporting Interpretations Committee (IFRIC), adopted by the European Union and applicable in the Republic of Bulgaria.

The financial statements are executed based on the assumption that the Company is active and shall continue its business in the foreseeable future.

ASIPC requires the investment property of the Company to be valued at the end of each year. At the end of each financial year the investment property is valued by a licensed independent appraiser attested by the Ministry of Agriculture on the basis of Article 20, Paragraphs 1 and 2 of ASIPC. For the valuation of the investment property of the Company as of 31 December 2015 the independent auditor used the fair market value model (See Note 3).

The present financial statements are prepared in compliance with the convention of the historic price, with the exclusion of the investment property revaluated according to fair value. The other financial assets and liabilities and the non-financial assets and liabilities are accounted for according to depreciated or historic value.

The interim financial statement of the Company as at 30 September 2016 has not been certified by a registered auditor and o audit review has been carried out.

### **Accounting assumption and accounting estimates**

The drafting of the financial statements in compliance with IFRS requires from the management to make estimates and assumptions which influence the carrying amount of the assets and liabilities as of the date of the statement of financial position and the amount of the revenues and costs during the reported period, as well as on the disclosure of contingent assets and liabilities. Although these estimates are based on the most precise estimation of the current events by the management and the available information as of the date of issuance of the financial statements, the actual future results may differ from the estimates.

The main source of uncertainty for the Company regarding the assumptions and estimates is the assessment of the fair value of the investment property (see Note 3).

### **Functional currency and representation currency**

According to the requirements of the Bulgarian accounting legislation the Company keeps accounts and drafts its financial statements in the national currency of the Republic of Bulgaria – the Bulgarian lev, which is the functional currency of the Company.

## **3. KEY ELEMENTS OF THE ACCOUNTING POLICY**

### **Investment property**

The investment property in which the Company invests is land, held for revenues in the form of rent and with the purpose of capital increase.

The investment property is valued initially according to prime cost, including the price of acquisition and all direct costs related to the acquisition of the property.



### **3. KEY ELEMENTS OF THE ACCOUNTING POLICY (CONTINUED)**

#### **Investment property (continued)**

The subsequent costs related to the investment property which has already been recognized are added to the carrying amount of the investment property when it is probable that the Company will receive future economic benefits connected with the asset and when the asset acquisition price can be reliably valued.

Subsequent valuations of the investment properties are made using the fair value model which values an investment property after an initial valuation according to acquisition price, with adjustments to the fair value, recognized in the statement of comprehensive income as profit and loss for the year.

At the end of each financial year the investment property is valued by a licensed independent appraiser.

The Company rents out its investment property, respectively retaining all considerable risks and benefits arising from the ownership of this property.

#### **Non-current assets held for sale**

The Company classifies non-currents asset as held for sale when its carrying amount will be recovered through sale rather than through continuing use. In order for this to be the case, the asset must be available for immediate sale in its present condition and the sale is likely to be implemented within 12 months. These assets are presented separately in the statement of financial position.

The Company estimates assets classified as held for sale at the lower of their carrying value immediately after their designation as held for sale and their fair value less costs to sell them.

#### **Financial lease - Leaseholder**

When leasing assets within the terms of financial lease, the actual value of lease payments is recognized as financial lease receivables. The difference between the gross and actual value of the receivable is treated as financial income for future period but it is not recognized as liability in the statement for financial position. The profit from lease is recognized for the lease period using the net investment method in order to achieve continuous interest income in per cent over the residual principal amount.

The profit from the sales of assets is recognized in the profit and loss report for the respective period.

#### **Cash and cash equivalents**

Cash and cash equivalents include cash on hand and in current accounts and deposits in banks with maturity of up to 3 months. The Management of the Company considers that deposits with maturity of up to 3 months meet the criteria for cash equivalents as they are easily convertible into cash with an immaterial loss of value. These deposits are convertible into cash without a written notice and without the Company being charged indemnities for early termination.

### **3. KEY ELEMENTS OF THE ACCOUNTING POLICY (CONTINUED)**

#### **Financial instruments**

All financial assets and liabilities are valued initially according to fair value, which is the fair value of the paid (for assets) or received (for liabilities) compensation. The financial assets include financial assets reported at fair value as profit or loss, loans and receivables held to maturity and financial assets available for sale.

The financial assets reported at fair value as profit or loss are subsequently valued according to fair value, where the changes in the fair value are recognized as profit or loss in the statement of comprehensive income. Financial assets available for sale are valued at fair value, where the changes in the fair value are reported in the equity. The loans, receivables and financial assets held to maturity are subsequently valued according to depreciated value using the method of the effective interest rate.

The debt and capital instruments are classified respectively as financial liabilities or equity, according to the respective contracts. A capital instrument is any contract which ensures residual value in the assets of the Company after the deduction of all liabilities. Capital instruments are accounted for according to the received returns, net from the issue costs. The financial liabilities are classified either as financial liabilities reported at fair value in the profit or loss, or as other financial liabilities. Each revenue/cost related to financial liabilities reported at fair value is accounted in the profit and loss report. The other financial liabilities, including loans, are initially valued according to fair value, net of the transaction costs. They are subsequently valued according to depreciated value using the method of the effective interest rate, with the costs for interest recognized on the basis of effective profitability.

As of the date of the statement of financial position a review of the available financial assets is made for indications of depreciation or revaluation. In case that there are such indications, the recoverable value of the asset is determined and depreciation loss is recognized.

#### **Operations in foreign currencies**

Transactions denominated in foreign currencies are accounted for in BGN, according to the exchange rate of the Bulgarian National Bank (BNB) on the dates of the respective transactions. The assets and liabilities denominated in foreign currencies are accounted for as of the date of drafting of the statement of financial position, according to the closing exchange rate of BNB. Non-monetary assets and liabilities which are valued at historic price of acquisition in foreign currency are transformed into functional currency according to the exchange date as at the date of the initial transaction.

The profit and loss resulting from exchange rate variations and trade in currency are accounted for in the statement of comprehensive income as profit or loss for the period of their occurrence.

As at 1 January 1999 the Bulgarian lev has been pegged to the currency of the European Union, at an exchange rate of EUR 1 for BGN 1.95583. The fluctuations of all other currencies with respect to the BGN reflect the fluctuations of the same currencies with respect to the EUR at the international markets.

The Company does not have significant transactions in currencies different from the BGN and EUR and is not exposed to currency risks.

### **3. KEY ELEMENTS OF THE ACCOUNTING POLICY (CONTINUED)**

#### **Revenues from rent and lease of investment property**

The revenues from renting out of investment property are recognized in the statement of comprehensive income in compliance with the principle of current accumulation for the term of the contract.

#### **Deposit interest income**

The interest income is recognized proportionally to time by using the effective interest method.

The interest income from deposits is recognized for the current period in the statement of comprehensive income of the Company in compliance with the conditions of the deposit contract. The realized interest from securities held for trade is accounted for as interest income.

#### **Taxation and interest requirement**

The Company is established pursuant to the provisions of ASIPC and is exempt from taxation with Bulgarian corporate tax on profit, provided that it distributes in favour of the shareholders 90 % of its annual profit or 90 % of its financial results if it is less than the annual profit. In compliance with ASIPC provisions, the Company calculates the payable dividend at the end of each financial year and recognizes such dividend as liability as at the date of the statement on financial position, thus meeting the requirement for current liability in compliance with IAS 37.

As a result, the Company does not owe and has not calculated current and deferred tax on profit for the relevant period in these financial statements.

#### **Core capital**

Ordinary registered dematerialized shares are classified as core capital.

Costs on the emission of new shares which are directly related to it are reported in the core capital as decrease in revenues from the emissions, eliminating the taxation effect on the revenue.

#### **Provisions**

Provisions are reported in the occurrence of actual judicial, constructive or statutory obligation of the Company as a result of past events and when it is expected that cash outflows may occur for repayment of such obligation and when the amount of the obligation itself can be determined with reasonable certainty. Provisions for future losses from activities are not recognized.

Provisions are determined based on the current value of expected costs for settling the obligation by using rate before tax which reflects the evaluation of the current market condition, the value of money in time and the risks specific for the obligation. Provision increase as a result of time is recognized as costs for interest.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE PERIOD ENDED 30 SEPTEMBER 2016  
All amounts are given in BGN thousand unless indicated otherwise

**4. INVESTMENT PROPERTY**

	Agricultural land	Property in regulation	Property against which there are lawsuits filed	Other	Total
Hierarchy level of fair values	3	3	3	3	
Fair value					
As of 1 January 2015	157,769	13,998	19	223	172,009
Acquired during the year	17,687	-	-	-	17,687
Derecognized during the year	(7,761)	-	-	(17)	(7,778)
Claims filed	(12)	-	12	-	-
Claims terminated	12	-	(12)	-	-
Classified as assets held for sale	(5,003)	-	-	-	(5,003)
As of 31 December 2015	162,692	13,998	19	206	176,915
Subsequent valuation to fair value	26,218	451	(8)	-	26,661
As of 31 December 2015	188,910	14,449	11	206	203,576
Fair value					
As of 1 January 2016	188,910	14,449	11	206	203,576
Acquired during the period	5,818	-	-	-	5,818
Derecognized during the period	(2,592)	-	-	-	(2,592)
Claims filed	(32)	-	32	-	-
Claims terminated	35	-	(35)	-	-
Classified as assets held for sale	(10,616)	-	-	-	(10,616)
As of 30 September 2016	181,523	14,449	8	206	196,186
Subsequent valuation to fair value	-	-	(3)	-	(3)
As of 30 September 2016	181,523	14,449	5	206	196,183

The fair value of the land with pending claims is determined as follows:

	Fair value
As at 31 December 2015	41
Adjustment for lawsuit-related circumstances	(30)
Adjusted as at 31 December 2015	11
As at 30 September 2016	10
Adjustment for lawsuit-related circumstances	(5)
Adjusted as at 30 September 2016	5

According to data from the legal team the lawsuits against the Company affecting fully or partially the ownership right over 17 decares of agricultural land are likely to be lost, therefore, as of 30 September 2016 the fair value of such property has been adjusted by BGN 5 thousand.

#### 4. INVESTMENT PROPERTY (CONTINUED)

As of 30 September 2016, the Company has signed rental contracts for economic year 2015-2016 for approximately 173,774 decares of agricultural land. The realized revenues from rent and lease, amounting to BGN 5,693 thousand, are reported in the statement of comprehensive income.

For comparison, the rental contracts signed as of 30 September 2015 for the preceding economic year - 2014-2015, were for 162,277 decares of agricultural land, with revenues realized from them amounting to BGN 5,053 thousand.

From the start of the reporting period until the end of September 2016, the Company realized the sale of 6,539 decares of agricultural land at average price of BGN 1,297/dca.

During the reporting period one of the lawsuits against the Company concerning the ownership rights over 35 decares of agricultural land in an area in the district of Vratsa was closed. The Company lost partial ownership over these properties and therefore, the lost shares were written off from the carrying amount of owned properties at the end of the period.

##### **Evaluation process**

The investment properties of the Company were evaluated as at 31 December 2015 by an independent licensed appraiser with the required professional qualification and with actual observations on the locations of the appraised investment property. The current use of all investment property is considered the best and the most effective.

The Financial Department of the Company includes a team reviewing the evaluations carried out by the independent appraiser for financial and accounting purposes. The team reports directly to the CEO and the Audit Committee. Discussions on the evaluation process and the results thereof are held between the CEO, the Financial Department team and the independent appraiser at least once every quarter in relation to the drafting of the interim financial statements of the Company.

At the end of each financial year the Financial Department:

- Confirms all key data in the report of the independent appraiser;
- Reflects the fluctuations in the property evaluation as opposed to the preceding appraiser's report;
- Holds discussions with the independent appraiser.

Changes in Level 3 of the fair value are analyzed at the end of each reporting period during the discussions between the CEO, the Financial Department team and the independent appraiser. As part of the discussion, the team presents a report clarifying the reasons for the fluctuations when determining the fair value.

##### **Evaluation techniques serving as basis for the management's evaluation of the fair value**

The investment property evaluation with total carrying amount of BGN 196,183 thousand as at 30 September 2016 (BGN 203,576 thousand as at 31 December 2015) is based on the market analogies method. When applying this method, the value of the appraised property is formed by comparing their key characteristics /area, quality, improvements made/ with the same or similar characteristics of property for which there is reliable data, including on the process of transactions between third parties. The key moment when applying the market analogues method is determining a price per decare for the appraised property.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE PERIOD ENDED 30 SEPTEMBER 2016  
All amounts are given in BGN thousand unless indicated otherwise

**5. ASSETS HELD FOR SALE**

As at 30 September 2016, the Company has signed preliminary agreements for sale of 12,372 decares of agricultural land. For comparison, as at 31 December 2015 the signed preliminary agreements for sale amounted to 4,596 decares of land.

The Company has classified these properties as non-current assets held for sale as follows:

	As at <u>30.09.2016</u>	As at <u>31.12.2015</u>
Non-current assets held for sale	<u>10,616</u>	<u>5,003</u>
Total	<u><u>10,616</u></u>	<u><u>5,003</u></u>

**6. FINANCIAL LEASE RECEIVABLES**

In 2015 the Company started the sale of agricultural land by virtue of financial lease agreements which continue this year as well. The land is conceded for use by the lessees upon agreement execution and the transfer of title shall be done after the expiry of the lease agreement.

The financial lease agreements shall be valid for a term of 5 /five/ years and shall become effective upon payment of admission fee. The payment shall be effectuated through equal annual instalments.

**As at 30 September 2016**

	<u>Up to 1 year</u>	<u>From 1 to 5 years</u>	<u>Total</u>
Gross investment in lease agreements	767	2,728	3,495
Unearned financial income	<u>(87)</u>	<u>(292)</u>	<u>(379)</u>
Carrying value	<u><u>680</u></u>	<u><u>2,436</u></u>	<u><u>3,116</u></u>

**As at 31 December 2015**

	<u>Up to 1 year</u>	<u>From 1 to 5 years</u>	<u>Total</u>
Gross investment in lease agreements	542	2,166	2,708
Unearned financial income	<u>(111)</u>	<u>(217)</u>	<u>(328)</u>
Carrying value	<u><u>431</u></u>	<u><u>1,949</u></u>	<u><u>2,380</u></u>

**7. RENT AND OTHER RECEIVABLES**

	As at 30.09.2016	As at 31.12.2015
Advances to brokers and partners, gross	1,229	818
<i>Depreciation</i>	<i>(168)</i>	<i>(168)</i>
Advances to brokers and partners, net	1,061	650
Receivables from rent, gross	2,577	2,151
<i>Depreciation</i>	<i>(489)</i>	<i>(516)</i>
Receivables from rent, net from depreciation	2,088	1,635
Receivables from indemnities	2	2
Court and adjudicated receivables	44	48
Other	47	34
Total	<u>3,242</u>	<u>2,369</u>

The amount of the outstanding rental receivables is BGN 829 thousand and BGN 611 thousand as of 30 September 2016 and 31 December 2015, respectively.

The fluctuation of provisions for depreciation of receivables from rents in 2016 and 2015 is as follows:

	As at 30.09.2016	As at 31.12.2015
Balance at the beginning of the period	516	674
Accrued provision	-	225
Restored provision	(27)	(38)
Written-off provision against the carrying amount of receivables	-	(345)
Balance at the end of the period	<u>489</u>	<u>516</u>

In 2016 and 2015 there is no fluctuation in the provisions for depreciation of receivables on granted advances to brokers and partners.

As of 30 September 2016 the Company has collected as advance payment over 76% of its receivables under the signed contracts for lease for the current economic year 2015-2016.

As at 30 September 2016 and 31 December 2015 the fair value of commercial and other receivables is approximately equal to their carrying amount provided that their maturity is short-term.

**8. ADVANCE PAYMENTS TO SUPPLIERS**

On 14 September 2009 Advance Terrafund REIT signed a preliminary contract for purchase of a landed property of 38 decares in the area of the town of Veliko Tarnovo. Pursuant to this contract the Company has made an advance payment amounting to BGN 1,880 thousand.

Due to a substantial delay, the implementation of part of the mandatory provisions for signing a final agreement for purchase of the property, the Company negotiated with the sellers and reached an agreement on termination of the contract. Pursuant to an agreement signed on 25 April 2012, the contract was terminated by mutual agreement and the seller agreed to return to Advance Terrafund REIT the advance payment to the amount of BGN 1,880 thousand as well as compensation to the amount of BGN 100 thousand.

As of the end of the reporting period, there are still no payments made on this agreement and therefore the Company carried out advance depreciation as follows:

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
 FOR THE PERIOD ENDED 30 SEPTEMBER 2016  
 All amounts are given in BGN thousand unless indicated otherwise

**8. ADVANCE PAYMENTS TO SUPPLIERS (CONTINUED)**

	As at 30.09.2016	As at 31.12.2015
Receivables from granted advances suppliers, gross	1,880	1,880
<i>Accrued depreciation</i>	<i>(1,316)</i>	<i>(1,316)</i>
Receivables from granted advances suppliers, net	<u>564</u>	<u>564</u>

**9. CASH AND CASH EQUIVALENTS**

	As of 30.09.2016	As of 31.12.2015
Cash on hand	134	145
Cash in BGN on demand account in BGN	6,692	2,410
Cash in BGN deposits	13,018	14,489
Cash in EUR deposits	-	5,923
Total	<u>19,844</u>	<u>22,967</u>

**10. COMMERCIAL AND OTHER LIABILITIES /CURRENT AND NON-CURRENT/**

	As at 30.09.2016	As at 31.12.2015
Liabilities to suppliers and brokers	493	217
Received advances (see Note 10.1)	6,774	5,617
Liabilities to the servicing company (Note 15)	1,163	1,286
Tax liabilities	1	1
Other	4	8
Total	<u>8,435</u>	<u>7,129</u>

**10.1. RECEIVED ADVANCES**

	As at 30.09.2016	As at 31.12.2015
Advances on contracts for economic year 2015-2016	-	2,778
Advances on contracts for economic year 2016-2017	1,632	-
Advances on financial lease contracts	58	-
Advances on property sales contracts	1,669	2,839
Advances on property sales on deferred payment /current/	889	-
Advances on property sales on deferred payment /non-current/	2,526	-
Total	<u>6,774</u>	<u>5,617</u>



### 10.1. RECEIVED ADVANCES (CONTINUED)

In 2016 the Company started signing contracts for the sale of agricultural land with deferred payment. The contracts are valid for a term of 5 /five/ years and become effective upon payment of admission fee. The payment is effectuated through equal annual installments.

The lands are made available for use by the buyer upon signing the contract, whereas the transfer of title shall be effectuated upon the full and final payment.

From the start of the reporting period until the end of September 2016 the Company signed contracts for the sale of 12,949 decares of agricultural land with deferred payment.

As at 30 September 2016 and 31 December 2015, the fair value of the commercial and other liabilities is approximately equal to their carrying amount provided that their maturity is short-term.

### 10.A PROVISIONS

	For the period ending at 30.09.2016	For the year ending at 31.12.2015
Balance at the start of the year	329	67
Accrued provisions during the period	-	274
Cancelled provisions during the period	(274)	(12)
Balance at the end of the period	<u>55</u>	<u>329</u>

According to data from the legal team on the lawsuits filed against buyers of properties from the Company concerning the ownership rights over already sold properties, such lawsuits will be lost and the buyer will be removed from the properties. Therefore the Company has accrued provisions for the repayment of the received sales price of the buyers.

During the reporting period two of the above lawsuits were terminated and along with this, the Company's obligations for reimbursement were cancelled. The amount of provisions has been reduced by BGN 274 thousand.

### 11. CORE CAPITAL

The registered capital of the company comprises 85 110 091 fully paid ordinary registered dematerialized share with par value of BGN 1 each. All shares have the right to dividend and liquidation share and have one voting right at the General Meeting of Shareholders in the Company.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE PERIOD ENDED 30 SEPTEMBER 2016  
All amounts are given in BGN thousand unless indicated otherwise

**11. CORE CAPITAL (CONTINUED)**

	Number of shares	Par value, BGN	Main capital (in BGN thousands)
As of 1 January 2015	85,110	1	85,110
Shares issued in 2015	-	-	-
As of 31 December 2015	85,110	1	85,110
Shares issued in 2016	-	-	-
As of 30 September 2016	85,110	1	85,110

The list of main shareholders in the Company is represented as follows:

	30 September 2016	30 September 2016	31 December 2015	31 December 2015
	Number of shares	%	Number of shares	%
International Finance Corporation	15 068 523	17.70	15 068 523	17.70
Karoll Finance EOOD	15 022 594	17.65	15 022 594	17.65
NN Universal Pension Fund	5 699 453	6.70	5 684 258	6.68
	<u>35 790 570</u>	<u>42.05</u>	<u>35 775 375</u>	<u>42.03</u>

The remaining part of the share capital is held by 159 legal entities /32 289 781 shares/ and 1 503 persons /17 029 740 shares/, each of which holding less than 5 % of the capital.

According to the ASPIC provisions, the Company is not entitled to hold own shares.

**12. COSTS FOR HIRED SERVICES**

	The period ended 30.09.2016	The period ended 30.09.2015
Costs for consultancy services (see Note 12.1)	3,119	2,373
Costs for commissions	870	275
Annual fees	14	11
Advertising	17	32
Subsequent costs for management of the real estate	41	21
Other costs and charges	52	39
Total	<u>4,113</u>	<u>2,751</u>

## 12.1. COSTS FOR CONSULTANCY SERVICES

	For the period ending on 30.09.2016	For the period ending on 30.09.2015
Remuneration for the servicing company (Notes 13 and 15)	3,088	2,332
Costs for auditing services	-	2
Costs for appraisals	15	17
Other consultancy services	16	22
Total	<u>3,119</u>	<u>2,373</u>

## 13. SERVICE CONTRACT

The Company has a service contract with Karoll Finance EOOD, which holds a share of the authorized capital of the Company amounting to 17.65%. According to the above contract Karoll Finance EOOD provides consultancy and administrative services and human resources services against an annual fee which is calculated as follows:

1. 0.375% of the value of the investment property of the Company according to acquisition price, payable for each quarter;
2. 10% of the receivables of the Company from rent and leasing, calculated at the end of each quarter;
3. 10% of the difference between the sales price and the acquisition price when realizing a sale, provided that an internal rate of return (IRR) amounting to a minimum of 15%, calculated on an annual basis, is reached for the transaction.
4. 2.5% on the difference between the lease price/sales price under the financial lease agreement/deferred payment agreement and the acquisition price of the relevant property;
5. Annual management and administration fee for each financial lease agreement to the amount of 0.6 on the fee under Item 4 for every year of the term of the financial lease agreement/deferred payment agreement.

The total charge under the service contract amounts to BGN 3,088 thousand and BGN 2,332 thousand as of 30 September 2016 and 30 September 2015, respectively (Note 15).

## 14. REMUNERATION OF THE BOARD OF DIRECTORS AND MANAGEMENT

From the start of the reporting period to the end of September 2016 the Company paid remuneration amounting to BGN 51 thousand to the directors and management of the Company, which has not changed since the relevant period in 2015.

The Company does not apply a pension program for its employees or share-based payments.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE PERIOD ENDED 30 SEPTEMBER 2016  
All amounts are given in BGN thousand unless indicated otherwise

**15. TRANSACTIONS WITH RELATED PARTIES****For the period 01.01.2016 – 30.09.2016**

	Liability at the start of the period	Charged during the period	Paid during the period	Liability at the end of the period
<b>Consultancy services</b>				
Karoll Finance EOOD (service company under ASIPC)	1,286	3,088	3,211	1,163
	Receivable at the start of the period	Charged during the period	Received during the period	Receivable at the end of the period
<b>Leases</b>				
Agro Terra North AD (company under common control)	131	388	-	519
Remuss OOD (company under common control)	288	205	220	273

**For the period 01.01.2015 – 30.09.2015**

	Liability at the start of the period	Charged during the period	Paid during the period	Liability at the end of the period
<b>Consultancy services by the service company under ASIPC</b>				
Karoll Finance EOOD (service company under ASIPC)	843	2,332	2,133	1,042
	Receivable at the start of the period	Charged during the period	Received during the period	Receivable at the end of the period
<b>Leases</b>				
Agro Terra North AD (company under common control)	433	360	313	480
Remuss OOD (company under common control)	94	165	39	220

**16. INCOME PER SHARE**

	The period ended 30.09.2016	The period ended 30.09.2015
Net profit (BGN thousands)	4,168	3,487
Daily average weighted number of share	85,110,091	85,110,091
Income per share (BGN)	0.05	0.04

The average weighted number of shares is calculated as a sum of the number of ordinary shares in circulation at the start of the period and the number of ordinary shares in circulation issued during the period, with each number of shares multiplied in advance by an average time factor.

**17. DIVIDEND PER SHARE**

As per ASIPC, Article 10, the Company is obliged to allocate as dividend no less than 90% of the financial result, converted following the procedure outlined in Article 10, Paragraph 3 of the same Act.

As per a resolution of the regular annual general meeting of the shareholders held on the 31<sup>st</sup> of May 2016, the Company distributed dividend for 2015 to the amount of BGN 8,511 thousand (BGN 0.10 per share).

The amount of the dividend for 2015 was determined as follows:

	Year ending on 31.12.2015
Book profit, as per the statement of comprehensive income for 2015	33,750
<i>Correction for:</i>	
Revenues from subsequent valuation of property, net (article 10, paragraph 3, item 1 of ASIPC)	(26,669)
Profit from transactions with transfers of title on property (article 10, paragraph 3, item 2 of ASIPC)	(4,054)
Difference between sales price and historic value of property (article 10, paragraph 3, item 3 of ASIPC)	7,013
Profit from sales reported in the year of signing financial lease agreements (article 10, paragraph 3, item 4 of ASIPC)	(1,344)
<i>Adjusted financial result for the period</i>	8,696
Dividend to be allocated according to a resolution of the General Meeting of Shareholders -97.87 % of the adjusted financial result	8,511
Obligation for dividend as at 31 December 2015 – 90% of the adjusted financial result	(7,826)
<b>Dividend liability to be further accrued in 2016</b>	<b>685</b>

In 2016 and 2015 the fluctuation in the obligation for dividend is as follows:

	Period ending on 30.09.2016	Year ending on 31.12.2015
Balance at the start of the year	7,970	23,104
Allocated dividend for the current year	-	7,826
Further accrued allocated dividend for 2014	-	2,546
Further accrued allocated dividend for 2015	685	-
Paid dividend, net after taxation	(8,376)	(25,144)
Paid tax at dividend payment	(118)	(362)
Balance at the end of the period	161	7,970

As at 30 September 2016, the Company reported obligation on unpaid dividends for the period from 2010 until 2015, to the total amount of BGN 161 thousand.

## 18. FINANCIAL RISK MANAGEMENT

The activity of the Company is exposed to various financial risks: credit risk, interest risk, liquidity risk and market risk (including currency and price risk).

### *Credit risk*

The Company applies credit policies in order to attract clients with credit reputation appropriate for management of investment property, credit history and financial means. The Company is not exposed to a considerable credit risk.

The maximum exposure to credit risk as per classes of financial assets for the Company is as follows:

	Period ending on 30.09.2016	Year ending on 31.12.2015
Financial lease receivables	3,116	2,380
Commercial receivables, net of depreciation	3,149	2,285
Receivables on granted advances, net of depreciation	564	564
Cash and cash equivalents	19,844	22,967
	<u>26,673</u>	<u>28,196</u>

As at 30 September 2016 and 31 December 2015 the fair value of cash and cash equivalent is approximately equivalent to their carrying amount.

**18. FINANCIAL RISK MANAGEMENT (CONTINUED)**

The analysis of the credit quality of financial assets is as follows:

	Period ending on 30.09.2016	Year ending on 31.12.2015
<b>Commercial receivables, gross</b>		
Receivables from rent	1,748	855
Receivables on granted advances to brokers and partners	1,061	650
Receivables from financial lease clients	3,116	2,380
<b>Total neither overdue, nor depreciated</b>	<b>5,925</b>	<b>3,885</b>
<b>Overdue but not depreciated receivables</b>		
- overdue up to 30 days	-	-
- overdue between 30 – 90 days	-	-
- overdue between 90 – 180 days	-	780
- overdue between 180 – 360 days	341	-
<b>Total overdue but not depreciated receivables</b>	<b>341</b>	<b>780</b>
<b>Individually depreciated receivables, gross</b>		
- Overdue for over 1 year	198	225
- overdue between 2 and 5 years	2,338	2,339
<b>Total individually depreciated receivables</b>	<b>2,536</b>	<b>2,564</b>
<i>Minus provision for depreciation of receivables</i>	<i>(1,973)</i>	<i>(2,000)</i>
<b>Total receivables after depreciation loss</b>	<b>6,829</b>	<b>5,229</b>

Cash and cash equivalents which are neither overdue not secured are as follows:

Rating	Period ending on 30.09.2016	Year ending on 31.12.2015
B*	6,692	2,410
BB+**	13,018	14,489
F2***	-	5,923
	<b>19,710</b>	<b>22,822</b>

\* *Rating is drafted by the Bulgarian Credit Rating Agency*

\*\* *Rating is drafted by Standart&Poor`s*

\*\*\* *Rating is drafted by Fitch Ratings*

*Liquidity risk*

The Company monitors its cash flows, the maturity of its debts and its liquidity in order to assess its exposure to liquidity risks. The Company maintains sufficient cash available in order to fund its activity and mitigate the fluctuations of the cash flows. The Company ensures the required means for its activities through public offering of securities and through numerous credit possibilities from financial institutions, securing its loans through its own investment property.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
 FOR THE PERIOD ENDED 30 SEPTEMBER 2016  
 All amounts are given in BGN thousand unless indicated otherwise

**18. FINANCIAL RISK MANAGEMENT (CONTINUED)**

As of 30 September 2016

FINANCIAL ASSETS	Under 1 month	1-3 months	3 months-1 year	From 1 to 5 years	Total
Cash and cash equivalents	19,844	-	-	-	19,844
Financial Lease receivables, gross	-	-	767	2,728	3,495
Receivables from rent, net from depreciation	2,088	-	-	-	2,088
Advances to brokers and contractors	-	1,061	-	-	1,061
Receivables from indemnities	-	-	2	-	2
Court and adjudicated receivables	-	-	44	-	44
Other receivables	-	17	30	-	47
<b>Total financial assets</b>	<b>21,932</b>	<b>1,078</b>	<b>843</b>	<b>2,728</b>	<b>26,581</b>

  

FINANCIAL LIABILITIES	Under 1 month	1-3 months	3 months-1 year	From 1 to 5 years	Total
Received advances	175	1,312	2,761	2,526	6,774
Liabilities to suppliers and brokers	493	-	-	-	493
Liabilities to related companies	1,163	-	-	-	1,163
Dividend liability	161	-	-	-	161
Other liabilities	5	-	-	-	5
<b>Total financial liabilities</b>	<b>1,997</b>	<b>1,312</b>	<b>2,761</b>	<b>2,526</b>	<b>8,596</b>

As of 31 December 2015

FINANCIAL ASSETS	Under 1 month	1-3 months	3 months-1 year	From 1 to 5 years	Total
Cash and cash equivalents	17,044	5,923	-	-	22,967
Financial lease receivables, gross	-	-	533	2,131	2,664
Receivables from rent, net of depreciation	780	-	855	-	1,635
Advances to brokers and contractors	-	650	-	-	650
Receivables from indemnities	-	-	2	-	2
Court and adjudicated receivables	-	-	48	-	48
Other receivables	-	-	34	-	34
<b>Total financial assets</b>	<b>17,824</b>	<b>6,573</b>	<b>1,472</b>	<b>2,131</b>	<b>28,000</b>

  

FINANCIAL LIABILITIES	Under 1 month	1-3 months	3 months-1 year	Total
Received advances	-	-	108	5,617
Liabilities to suppliers and brokers	217	-	-	217
Liabilities to related companies	1,273	-	13	1,286
Dividend liability	144	-	7,826	7,970
Other liabilities	9	-	-	9
<b>Total financial liabilities</b>	<b>1,643</b>	<b>108</b>	<b>13,348</b>	<b>15,099</b>



## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE PERIOD ENDED 30 SEPTEMBER 2016

All amounts are given in BGN thousand unless indicated otherwise

**18. FINANCIAL RISK MANAGEMENT (CONTINUED)***Interest risk*

The value of the assets of the Company depends on the dynamics of the market interest rates. The Company is exposed to risks from fluctuations of the interest rates because the profitability of the interest-bearing assets changes as a result of the changes in the market interest rates. Regarding floating interest rates the Company is exposed to risks depending on the interest rate index to which the respective financial instrument is pegged.

As of 30 September 2016	Under 1 month	1-3 months	3 months -1 year	1-5 years	Non-interest bearing	Total
<b>Assets</b>						
Financial lease receivables	-	-	680	2,436	-	3,116
Other receivables and advances	-	-	-	-	3,242	3,242
Cash on hand	-	-	-	-	134	134
Cash in banks	13,018	-	-	-	6,692	19,710
<b>Total assets</b>	<b>13,018</b>	<b>-</b>	<b>680</b>	<b>2,436</b>	<b>10,068</b>	<b>26,202</b>

	Under 1 month	1-3 months	3 months -1 year	1-5 years	Non-interest bearing	Total
<b>Liabilities</b>						
Liabilities to suppliers and brokers	-	-	-	-	493	493
Liabilities to related parties	-	-	-	-	1,163	1,163
Received advances	-	-	-	-	6,774	6,774
Dividend liability	-	-	-	-	161	161
Other	-	-	-	-	5	5
<b>Total liabilities</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>8,596</b>	<b>8,596</b>

As of 31 December 2015	Under 1 month	1-3 months	3 months -1 year	1-5 years	Non-interest bearing	Total
<b>Assets</b>						
Financial lease receivables	-	-	431	1,949	-	2,380
Other receivables and advances	-	-	-	-	2,369	2,369
Cash on hand	-	-	-	-	145	145
Cash in banks	16,899	5,923	-	-	-	22,822
<b>Total assets</b>	<b>16,899</b>	<b>5,923</b>	<b>431</b>	<b>1,949</b>	<b>2,514</b>	<b>27,716</b>

	Under 1 month	1-3 months	3 months -1 year	1-5 years	Non-interest bearing	Total
<b>Liabilities</b>						
Liabilities to suppliers and brokers	-	-	-	-	217	217
Liabilities to related parties	-	-	-	-	1,286	1,286
Received advances	-	-	-	-	5,617	5,617
Dividend liability	-	-	-	-	7,970	7,970
Other	-	-	-	-	9	9
<b>Total liabilities</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>15,099</b>	<b>15,099</b>

## 18. FINANCIAL RISK MANAGEMENT (CONTINUED)

### *Currency risk*

The Company is exposed to currency risks when carrying out transactions with financial instruments denominated in foreign currencies. The transactions denominated in foreign currencies generate profit and loss from exchange rate variations. As of 30 September 2016 and as at 31 December 2015 the financial assets and investments are denominated in BGN and EUR and under the conditions of an established currency board in the country, the exchange rate of the BGN to the EUR is fixed and does not create currency risks. As of these dates the Company has no exposure to currencies different from BGN and EUR.

### *Market risk*

The market risk is a systematic risk which influences the value of all assets. It arises from the characteristics of the macroeconomic environment and the status of the capital market in the country. The market risk is beyond the control of the Company and as a whole cannot be diversified. The main method for reduction of the market risk and its components is collection and processing of information about the macroeconomic environment and on this basis – making projections and adjustments of the investment policy to the expected changes in the environment.

The Company invests a minimum of 90% of its portfolio in land designated for agricultural needs and up to 10% in land in urbanized territories. The agricultural land is exposed to low risk from changes in prices and rents. The potential reduction of the prices of agricultural land is favourable for the investment policy of the Company, and the increase of the rental price as compared to the previous year increases the profitability of the investments. The increased risk in the sector affects mainly real estate designated for building construction and is a result of the global financial crisis. The current situation cannot pose a serious negative effect on the financial state and the results from the activities of the Company; nevertheless the Company has undertaken measures for reduction of the share of land in urbanized areas with the purpose of restriction of the price risk.

Advance Terrafund REIT continues to follow its policy for investments in high quality property meeting the needs for development of modern agriculture and renting or leasing out to first-class tenant/lessees/ at conditions favourable for the Company.

Structure of the investment portfolio:

	30 September 2016		31 December 2015	
	Fair price	% of the net assets, valued at market price	Fair price	% of the net assets, valued at market price
Agricultural land	181,734	92.63	189,127	92.90
Property in urbanized territories	11,453	5.84	11,453	5.63
Property in regulation	2,996	1.53	2,996	1.47
Total	<u>196,183</u>	<u>100.00</u>	<u>203,576</u>	<u>100.00</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
 FOR THE PERIOD ENDED 30 SEPTEMBER 2016  
 All amounts are given in BGN thousand unless indicated otherwise

## 18. FINANCIAL RISK MANAGEMENT (CONTINUED)

### *Capital risk*

The Company manages its capital aiming to maximize returns for shareholders through optimization of the capital structure. The strategy of the Company remains without change since the end of 2015. The capital structure comprises of cash and cash equivalents and equity (see respectively notes 9 and 11).

	<u>30.09.2016</u>	<u>31.12.2015</u>
Total liabilities	8,651	15,428
Decreased by: Cash and cash equivalents	(19,844)	(22,967)
Net debt	(11,193)	(7,539)
Total equity	224,914	221,431
Total capital	236,107	228,970
Debt ration	n/a	n/a

## 19. EVENTS AFTER THE END OF THE REPORTING PERIOD

As at the date of execution of these Financial Statements the Company has collected part of its receivables on rental and lease agreements to the amount of BGN 173 thousand.