

ADVANCE TERRAFUND ADSIC

**ANNUAL MANAGEMENT REPORT AND
FINANCIAL STATEMENTS
31 December 2018**

ADVANCE TERRAFUND ADSIC

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ADVANCE TERRAFUND ADSIC

General information

Board of Directors

Borislav Petkov, Chairman of the Board of Directors
Nencho Penev, Member of the Board of Directors
Radoslav Manolov, Executive Director

Audit committee

Kamen Kamenov
Zhechko Petrov
Petar Doynov

Registered office

1 Zlatovrah St.
Lozentets district
1164 Sofia

Depository bank

United Bulgarian Bank AD

Financial services company

Karoll Finance EOOD

Auditors

Ernst & Young Audit OOD
Polygraphia Office Centre
47 A, Tsarigradsko shose Blvd., fl.4
1124 Sofia

**ADVANCE TERRAFUND ADSIC
MANAGEMENT REPORT**
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General information about the Company

Advance Terrafund ADSIC (the "Company") is a public joint-stock company which was established at the Constituent Assembly on 12 April 2005, with initial capital amounting to BGN 500 thousand, allocated to 500,000 shares with par value of BGN 1 each. The Company is registered again with the Trade Register at the Registry Agency under UIC 131418187. The Company's registered office is: 1 Zlatovruh Str., Sofia.

The Company's scope of activity is the following: investment of financial resources, raised through public offering of securities, in real estate (real estate securitization) through purchase of right of ownership and other property rights on real estate as well as building constructions and improvements to them, with the purpose of their management, renting, leasing, and/or sale.

The activities of the Company fall under the regulations found in the Act on Special Investment Purpose Companies (ASIPC) and in the Public Offering of Securities Act (POSA). In accordance with these two Acts, the Company is subject to regulation by the Financial Supervision Commission (FSC). The Company obtained license № 10-SPIC (Special Purpose Investment Company)/08 December 2005, issued on the basis of Decision № 452-SPIC from 14 July 2005 of the Financial Supervision Commission.

The Company is incorporated for an unlimited duration.

The Company has a one-tier management system. The Board of Directors (BOD) of the Company is composed of the following members: Radoslav Iliev Manolov – Executive Director, Borislav Vitanov Petkov – Chairman of the Board of Directors and Nencho Invanov Penev – Member of the Board of Directors. Entrusted with the general management are the members of the Company's Audit Committee: Kamen Petrov Kamenov – Chairman of the Audit Committee, Zhechko Dimitrov Petrov – Member of the Audit Committee and Petar Doynov Doynov – Member of the Audit Committee.

Karoll Finance EOOD is the financial services company of Advance Terrafund ADSIC, which as of 31 December 2018, owns 17,65% of the capital of Advance Terrafund ADSIC. It is engaged in providing 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 31 December 2018 the capital of the Company amounts to BGN 85,110,091.

Investment strategy, purposes and limitations of the Company

Advance Terrafund ADSIC is a joint-stock special investment purpose company for securitization of real estate. The Company has the right to acquire property rights only on agricultural, urban and forest real estate located on the territory of the Republic of Bulgaria. As per the Statutes of Advance Terrafund ADSIC adopted at the Foundation Meeting of the Company held on 12 April 2005, its investment purposes are:

- To afford its shareholders the opportunity to invest in a diversified portfolio of real estate, following the principle of risk distribution;
- To ensure for its shareholders preservation and increase of the value of their investments through realization of steady income with a balanced risk distribution.

The strategy of the Company envisages investment in real estate meeting the requirements of Article 9 of the Statutes of Advance Terrafund ADSIC with the purpose of receiving current income from rental, leasing and conceded right of use agreements as well as through the sale of these real estate properties to generate steady income. In order to achieve its main purpose, the Company may apply suitable strategies for protection from market and currency risks.

Financial objectives:

- Providing steadily increasing current income for the shareholders in the form of cash dividends through renting out the land owned by the Company;
- Maximizing the value of the shareholders' investments through continuous active management of the assets of the Company and acquisition/sale of agricultural properties;
- Diversification of the portfolio of agricultural properties through investment in various types of agricultural property (arable land, land with perennial plants, vineyards, etc.) located in different regions of the Republic of Bulgaria with a view to reducing the non-systematic risks of the investment portfolio;
- Securing liquidity for the shareholders of the Company through listing the shares of Advance Terrafund ADSIC for trade at the Bulgarian Stock Exchange – Sofia;
- Performing the necessary capital increases with the purpose of structuring a balanced portfolio of real properties.

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The investment policy of the Company envisages investment of its raised capital in real properties determined on the basis of their main and specific designations as per the development designs and the detailed development plans as follows:

- Landed properties in urbanized territories /settlements and villages/ designated for residential, public, production, warehousing, resort, recreational and sports functions;
- Landed properties in agricultural territories – arable land /fields, orchards, vegetable gardens, vineyards, meadows, etc./ and non-arable land;
- Landed properties in forest territories – forests and forest land.

According to the investment policy of the Company, the investments in landed property 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 – without limitations;
- Mortgage bonds issued according to the procedures and under the provisions of the Law on Mortgage Bonds – up to 10% of the assets of the Company.

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

1. Information presented in values and quantities about the main categories of goods, products and/or rendered services, indicating their shares in the sales income of the Issuer as a whole and the changes during the reporting financial year

The properties of the Company as of 31 December 2018 include agricultural land of approximately 206,706 decares of total value of BGN 204,654 thousand, properties in urbanized territory of approximately 71 decares of total value of BGN 3,067 thousand, regulated real property of approximately 62,176 sq.m. of value of BGN 11,099 thousand or a total of BGN 218,820 thousand, including BGN 103,133 thousand revaluation to fair value.

The Company has signed rental and lease agreements for 161,797 decares, representing 78.27% of the total agricultural land purchased, for the agricultural year of 2018 – 2019. The average income from rent/lease for the economic year amounts to BGN 39.82 per decare. The respective income from rent for 2018 and 2017 totalling BGN 6,408 thousand and BGN 6,525 thousand is reported in the statement of comprehensive income.

During 2018, the Company realized sales of agricultural land of 1,963 decares with deferred payment of the price and 190 decares direct sales of agricultural land.

Information on the value and relative share of the main sales revenue categories is presented, as follows:

	2018	2018	2017	2017
	BGN thousand	% share	BGN thousand	% share
Income from rent of investment property	6,408	72.78%	6,525	24.19%
Income from sale of property with deferred payment terms	2,150	24.42%	8,249	30.58%
Income from direct sale of property	240	2.73%	11,938	44.25%
Income from lease sale of property	6	0.07%	265	0.98%
Total income from sales and rentals	8,804	100.00%	26,977	100.00%

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2. Information about the income divided into separate categories of activities, domestic and foreign markets and information about the sources of supply of materials necessary for the production of goods or rendering of services, indicating the level of dependency for each individual seller or buyer/consumer and information about each person separately, its share in the sales or purchases and its relations with the Issuer in case that the relative share of any of them exceeds 10% of the expenses or sales income

	2018	2017
Income from rent of investment property	6,408	6,525
Income from sale of property with deferred payment terms	2,150	8,249
Income from direct sale of property	240	11,938
Income from lease sale of property	6	265
Income from revaluation of investment properties, net	7,005	22,261
Income from interests	767	673
Recovered impairment losses on advances to suppliers	-	1,316
Other income	231	162
Total income	16,807	51,389

Advance Terrafund ADSIC is a joint-stock special investment purpose company for securitization of real estate properties. The Company functions as a collective scheme for investment in real estate properties. Securitization of real estate properties means that the Company purchases real estate properties with funds raised through the issue of securities /shares/.

Pursuant to the provisions of the Act on Special Investment Purpose Companies, the Company has the right to invest its raised funds only within the territory of the Republic of Bulgaria, which excludes foreign markets.

Sources of funding of the activity in 2018 are the funds raised through all capital increases as well as the income from the core activity of the Company.

The Company executed transactions for agricultural land sale, realizing income forming over 10% of the income from sales, with the following clients:

2018

Client	Amount of income, BGN thousand	Share of income from sales, %	Relation to the Issuer
Client 1	1,197	49.96%	Non-related party
Client 2	510	21.29%	Non-related party

2017

Client	Amount of income, BGN thousand	Share of income from sales, %	Relation to the Issuer
Client 3	5,312	25.97%	Non-related party
Client 4	2,900	14.18%	Non-related party
Client 5	2,524	12.34%	Non-related party

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The Company has executed transactions for renting of agricultural lands, realizing income forming over 10% of the rental income, with the following clients:

2018

Client	Amount of income, BGN thousand	Share of income from renting, %	Relation to the Issuer
Client 6	955	14.90%	Non-related party
Client 7	793	12.38%	Related party of the Servicing Company

2017

Client	Amount of income, BGN thousand	Share of income from renting, %	Relation to the Issuer
Client 6	1,123	17,21%	Non-related party
Client 7	838	12,84%	Related party of the Servicing Company

In 2018 and 2017, the largest supplier of the Company is the Servicing Company Karoll Finance EOOD:

2018

Supplier	Amount of costs, BGN thousand	Share of costs, %	Relation to the Issuer
Karoll Finance EOOD	3,226	82.97%	Related party

2017

Supplier	Amount of costs, BGN thousand	Share of costs, %	Relation to the Issuer
Karoll Finance EOOD	4,075	60.88%	Related party

3. Information about major transactions executed

With the exception of the aforementioned transactions with a relative share of more than 10% of the income/expenses, the Company did not enter into any other significant transactions.

4. Information about related party transactions concluded by the Issuer during the reporting period, proposals for conclusion of such transactions and transactions, which are outside its usual activity or deviate significantly from the market conditions, to which the Issuer or any of its subsidiaries are parties, indicating transaction values, relationship types and any information necessary for evaluation of the impact on the financial position of the Issuer

In 2018, Advance Terrafund ADSIC concluded transactions with related parties and parties related to the Servicing Company, as follows:

Consulting services /related party/	Payable at the beginning of the period	Amounts charged during the period	Amounts paid during the period	Payable at the end of the period
Karoll Finance EOOD	953	3,226	(3,167)	1,012

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Rents /related parties of the Servicing Company/	Receivable at the beginning of the period	Amounts charged during the period	Amounts received during the period	Receivable at the end of the period
Agro Terra Sever AD	693	546	(551)	688
Remuss OOD	357	247	(297)	307

During the reporting period, the Company did not receive any proposals for conclusion of transactions, which are outside its usual activity or deviate significantly from the market conditions. The Company does not have any subsidiaries and does not have the right to establish such.

5. Information about events and indicators of nature unusual for the Issuer, having material impact on its activity and the realized income or incurred expenses and evaluation of their impact on the results for the current year

There are not any events or indicators of nature unusual for the Company that have affected the results of the past year's activity.

6. Information about off-balance sheet transactions – nature and business purpose, indicating the financial impact of the transactions on the activity if the risks and benefits related to such transactions are material for the Issuer and if the disclosure of this information is material for the evaluation of the financial position of the Issuer

The Company does not have any off-balance sheet transactions.

7. Information about participating interests of the Issuer, its main investments in the country and abroad (in securities, financial instruments, intangible assets and real properties) and investments in share securities outside its economic group and sources/means of financing

The Company does not have any participating interests or investments in share securities.

7.1. Sources of funding of Advance Terrafund ADSIC

– Share capital

The capital of Advance Terrafund ADSIC amounts to BGN 85,110,091 divided into 85,110,091 ordinary registered dematerialized shares, each having nominal value of BGN 1.

By the end of the reporting period, the Company successfully performed five increases in the capital, which is fully paid in the form of contributions in cash.

Income from core activities is generated from renting and sale of property.

– Bank loans

The Company did not use bank funding during the reporting period.

7.2. Investment properties of Advance Terrafund ADSIC

The properties of the Company as of 31 December 2018 include agricultural land of approximately 206,706 decares of total value of BGN 204,654 thousand, properties in urbanized territory of approximately 71 decares of total value of BGN 3,067 thousand, regulated real property of approximately 62,176 sq.m. of value of BGN 11,099 thousand or a total of BGN 218,820 thousand, including BGN 103,133 thousand revaluation to fair value.

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Land categorization:

The agricultural land in Bulgaria is assigned average agricultural rating aimed to evaluate the suitability of the land for growing of agricultural crops. According to suitability, it ranges from 1 to 10. Category 1 is the most suitable for agriculture and category 10 is the most unsuitable. Most of the agricultural land in Bulgaria falls within categories 3 to 6 and most of the land purchased by the Company is in these categories.

Table No 1: Allocation of the land purchased by ADVANCE TERRAFUND ADSIC by categories

Land category	Area in decares	% of the total area of purchased land
1	20	0.01%
2	4,954	2.40%
3	63,289	30.62%
4	70,073	33.90%
5	42,468	20.55%
6	15,283	7.39%
7	4,484	2.17%
8	2,153	1.04%
9	2,306	1.11%
10	1,676	0.81%
Total	206,706	100%

In the process of land selection, the Company has focused on investments in regions of the country characterized with well-developed rental relations, the allocation of which is given in Table No 2.

Table No 2: Allocation of the land purchased by ADVANCE TERRAFUND ADSIC by regions

REGION	PURCHASED LAND IN DECARES	% OF THE TOTAL AREA
Northwestern	98 733	47.77%
Central Northern	26 796	12.96%
Northeastern	39 563	19.14%
Southeastern	28 608	13.84%
Central Southern	13 006	6.29%

8. Information about transactions concluded by the Issuer, any of its subsidiaries or the parent company in the capacity of borrowers, loan agreements and their terms and conditions, including repayment deadlines and information about guarantees given and obligations undertaken

As of 31 December 2018, the Company did not have any liabilities under loan agreements.

In accordance with the provisions of the Act on Special Investment Purpose Companies, Advance Terrafund ADSIC is not allowed to establish any subsidiaries and the structure of share capital provides information on the absence of a parent company.

9. Information about agreements signed by the Issuer, any of its subsidiaries or the parent company in the capacity of lenders, loan agreements, indicating provision of guarantees of any kind, including guarantees to related parties and the specific terms and conditions of such agreements, including repayment deadlines and loan purposes

The Company has not provided any loans and guarantees to third parties.

10. Information about the utilization of the funds raised through a new issue of securities during the reporting period

During the reporting period, no new securities were issued by the Company.

The funds raised through the five capital increases made in the period 2005-2008 are invested in real estate in compliance with the investment policy of the Company, and namely:

- Landed properties in urbanized territories /settlements and villages/ designated for residential, public, production, warehousing, resort, recreational and sports functions;
- Landed properties in agricultural territories – arable land /fields, orchards, vegetable gardens, vineyards, meadows, etc./ and non-arable land;
- Landed properties in forest territories – forests and forest land.

11. Analysis of the ratio between the achieved financial results reported in the Financial Statements for the financial year and projected results published earlier

The Company has not published any projections for the financial results reported in the Financial Statements for 2018.

12. Analysis and evaluation of the policy regarding the management of the financial resources, indicating the means for debt servicing, potential threats and measures undertaken or to be undertaken by the Issuer with a view to their elimination

Where necessary, the Company uses debt financing after investment of the raised share capital. The policy of the Company is to sign short-term bank credit agreements. No external funding of activity has been used during the reporting period.

The gearing ratio /debt to equity/ at the end of the year is, as follows:

	2018	2017
Total liabilities	6,775	12,015
Cash and short-term deposits	(18,561)	(29,688)
Net debt	(11,786)	(17,673)
Non-current liabilities	-	-
Equity	246,901	239,862
Non-current liabilities / Equity	0.0	0.0

13. Evaluation of the potential for investment intentions realization, indicating available funds and possible changes in the funding structure for this activity

The internal sources of liquidity as of the end of 2018 are sufficient to provide for the investment process, therefore the Company does not need any external financing.

The ability of the Company to cover its current expenses and to realize its investment intentions can be expressed through the liquidity ratios in the period 2014-2018.

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General liquidity ratio

	2018	2017	2016	2015	2014
Current assets	BGN 25,786 thousand	BGN 36,006 thousand	BGN 36,668 thousand	BGN 25,767 thousand	BGN 51,330 thousand
Current liabilities	BGN 6,775 thousand	BGN 12,015 thousand	BGN 19,682 thousand	BGN 15,428 thousand	BGN 25,694 thousand
General liquidity ratio	3.81	3.00	1.86	1.67	2.00

	2018	2017	2016	2015	2014
Current assets	BGN 25,786 thousand	BGN 36,006 thousand	BGN 36,668 thousand	BGN 25,767 thousand	BGN 51,330 thousand
Current liabilities	BGN 6,775 thousand	BGN 12,015 thousand	BGN 19,682 thousand	BGN 15,428 thousand	BGN 25,694 thousand
Net working capital	BGN 19,011 thousand	BGN 23,991 thousand	BGN 16,422 thousand	BGN 10,339 thousand	BGN 25,636 thousand

The high liquidity which the Company continues to maintain as of 31 December 2018 is the result of the revenues from rents and sales of agricultural land.

14. Information about changes in the key management principles of the Issuer and its economic group during the reporting period

During the reporting period, the key management principles of the Issuer and its economic group did not undergo any changes.

15. Information about the main characteristics of the internal control system and the risk management system applied by the Issuer in the process of preparation of the Financial Statements

The Company applies an internal control system that guarantees a reasonable assurance that the corporate objectives and tasks will be achieved and performed. It includes identification, management and assessment of business risks and represents a dynamic process changing along with the changes to the personnel and the circumstances inherent to the activity of the Company. The system is structured in a manner ensuring prevention and avoidance of errors or violations and identification of occurred errors or violations within reasonable time limits.

In addition to the Internal Control and Risk Management System, the Company applies policies, rules and procedures that ensure effective functioning of the systems of reporting and disclosure of information by the Company and support the process of financial reporting. These rules define the different types of rights and obligations of responsible persons, the volume of information disclosed by the Company, the access to various types of information and the responsibilities relating to the management of information flows. The established risk management system ensures effective internal control in the preparation and management of all corporate documents, including the Financial Statements and other regulated information to be disclosed by the Company in accordance with the applicable legal regulations.

The Company prepares its Financial Statements in compliance with the International Financial Reporting Standards (IFRS) as adopted by the Commission of the European Union (EU).

16. Information about changes in the management and supervisory bodies during the reporting financial year

During the reporting period, there were not any changes in the management and supervisory bodies.

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17. Information about the remunerations, awards and/or benefits of each member of the management and controlling bodies for the reporting financial year paid by the Issuer and its subsidiaries no matter whether they are included in the expenses of the Issuer or originate from profit distribution, including:

a) Received amounts and non-monetary remunerations

As per the Statutes of the Company, each of the members of its Board of Directors receives a monthly remuneration determined by the General Meeting of Shareholders. The current total of the annual remunerations of all members of the Board of Directors may not exceed 0.20% of the registered capital of the Company as of 31 December of the year preceding the year of holding the session at which the General Meeting of Shareholders determined the remunerations of the members of the Board of Directors.

Borislav Vitanov Petkov	BGN 19,200
Radoslav Iliev Manolov	BGN 30,000
Nencho Ivanov Penev	BGN 19,200

The Company does not apply any policy for allocation of non-monetary remunerations.

Further information on the implementation of the remuneration policy of the members of the Board of Directors is contained in the Report on the Implementation of the Remuneration Policy of the Members of the Board of Directors of Advance Terrafund ADSIC for 2018.

In 2018, annual remuneration of the members of the Audit Committee was paid, as follows:

Kamen Petrov Kamenov	BGN 5,000
Zhechko Dimitrov Petrov	BGN 2,000
Petar Doynov Doynov	BGN 2,000

b) Conditional or deferred remunerations arising during the year, even if they are due later

The Company has not allocated any conditional or deferred remuneration.

c) Amounts payable by the Issuer or its subsidiaries for pensions, retirement benefits or other similar compensations

The Company does not owe any amounts for pensions, retirement benefits or other similar compensations.

18. Information about shares of the Issuer held by members of the management and controlling bodies, procurators and chief executives, including the shares held by each of them separately and as percentage of the shares of each class and options on the securities of the Issuer provided by the latter – type and amount of the securities on which options have been set up, price of options exercising, purchase price, if any, and option terms

Person	Radoslav Iliev Manolov
Position	Executive Director
Number of voting shares in the capital as of 31 December 2018	210,001
Percentage of the capital as of 31 December 2018	0.25%

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Person	Borislav Vitanov Petkov	
Position	Chairman of the Board of Directors	
Number of voting shares in the capital as of 31 December 2018		172
Percentage of the capital as of 31 December 2018		0.00%

The Company has not provided any options on its securities.

18.1. Information about participation of the members of the Board of Directors in management and controlling bodies of other companies

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Name	Position	Company
Borislav Vitanov Petkov	Member of the Board of Directors	Euro-Finance Consult AD
	Member of the Board of Directors	Lazurit 94 AD
	Shareholder	DB Proekt OOD
	Sole shareholder	Pozitek BG EOOD

19. Information about arrangements (including after the closure of the financial year) that may result in future changes in the relative share of shares or bonds owned by present shareholders or bondholders, of which the Company is aware

The Company is not aware of any arrangements as of 31 December 2018 or the date of this Annual Management Report that may result in future changes in the relative share of shares or bonds owned by present shareholders or bondholders.

20. Information about pending lawsuits, administrative or arbitration procedures concerning liabilities or receivables of the Issuer totalling at least 10% of its equity, including individual information about each procedure if the total liabilities or receivables of the Issuer related to all procedures exceed 10% of its equity

The Company is not involved in any pending lawsuits, administrative or arbitration procedures concerning liabilities or receivables totalling at least 10% of its equity.

21. Data about the Investor Relations Director, including telephone number and correspondence address

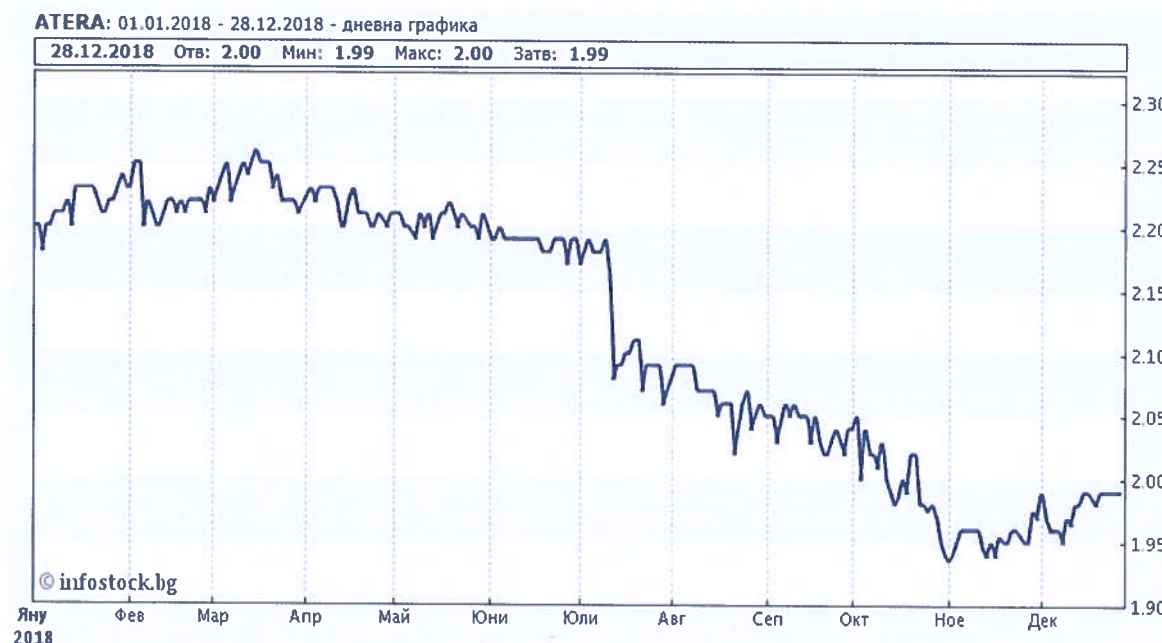
Pursuant to the provisions of Article 116 of the Law on Public Offering of Securities and the Statutes of the Company, the Investor Relations Director employed under a labour agreement is Atanas Todorov Dimitrov.

Correspondence address and telephone:

1 Zlatovrah Street, 1164 Sofia

Telephone: +359 2 4008332, e-mail: adimitrov@karoll.bg

22. Changes in the prices of the Company's shares during the period 1 January 2018 – 31 December 2018



23. Analysis and explanation of the information in Appendix No 11 to Ordinance No 2/17 March 2009 issued by the Financial Supervision Commission

23.1. Structure of the capital of the Company, including securities not admitted to trading in a regulated market in the Republic of Bulgaria or another member state, indicating the different classes of shares, the rights and obligations for each class of shares and the share of each separate class of the total capital

The structure of the capital of Advance Terrafund ADSIC, Sofia, as of 31 December 2018 is as follows:

- Capital of Advance Terrafund ADSIC: BGN 85,110,091 divided into 85,110,091 ordinary registered dematerialized shares, each having nominal value of BGN 1;
- Shares acquired by legal entities – 146 legal entities holding a total of 63,072,708 shares of the capital of Advance Terrafund ADSIC;
- Shares acquired by individuals – 1,694 individuals holding a total of 22,037,383 shares of the capital of Advance Terrafund ADSIC.

In accordance with the provisions of the Act on Special Investment Purpose Companies, the Company is not entitled to hold any own shares.

23.2. Restrictions applicable to securities transfer – restrictions on securities holding or requirement for approval by the Company or another shareholder

The Statutes of Advance Terrafund ADSIC do not provide for any restrictions as to the transfer of shares of the Company or a requirement for approval of Company's shares transfer by the Company or another shareholder.

23.3. Information about direct or indirect ownership of 5% or more of the voting rights in the General Meeting of the Company, including data about the shareholders, the amounts of their participating interests and the manners of shares holding

The shareholders of Advance Terrafund ADSIC – individuals holding directly or indirectly 5% or more of the voting shares of the Company as of 31 December 2018 are:

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Name	Stanimir Marinov Karolev
Manner of shares holding	Indirectly
Number of voting shares in the capital as of 31 December 2018	16,537,440
Percentage of the capital and the votes in the General Meeting	19.43%

The shareholders of Advance Terrafund ADSIC – legal entities holding directly or indirectly 5% or more of the voting shares of the Company as of 31 December 2018 are:

Name	Karoll Finance EOOD
Manner of shares holding	Directly
Number of voting shares in the capital as of 31 December 2018	15,022,594
Percentage of the capital and the votes in the General Meeting	17.65%

Name	INTERNATIONAL FINANCE CORPORATION
Manner of shares holding	Directly
Number of voting shares in the capital as of 31 December 2018	15,068,523
Percentage of the capital and the votes in the General Meeting	17.70%

Name	NN Universal Pension Fund
Manner of shares holding	Directly
Number of voting shares in the capital as of 31 December 2018	5,021,276
Percentage of the capital and the votes in the General Meeting	5.90%

23.4. Data about shareholders with special control rights and description of such rights

Advance Terrafund ADSIC does not have any shareholders with special control rights.

23.5. System for control in exercising voting rights when employees of the Company are also its shareholders and when control is not exercised directly by them

Pursuant to the provision of Article 21, Paragraph 1 of the Statutes of Advance Terrafund ADSIC: *“Each share shall give its holder the right to one vote, the right to dividend and the right to liquidation quota unless otherwise provided for in the decision of the Company’s body on a particular issue of shares. A Company’s body shall not have any right to provide more than 1 /one/ vote per share.”*

Pursuant to Article 22 of the Statutes of Advance Terrafund ADSIC: *“Each share shall give its holder the right to one vote in the General Meeting of Shareholders unless issued as a non-voting share. Voting rights shall be exercised by the persons entered in the registers of the Central Depository as shareholders 14 days prior to the date of the particular session of the General Meeting.”*

23.6. Restrictions on the voting rights such as restrictions on the voting rights of shareholders holding a certain percentage or number of votes, deadline for exercising of voting rights, or systems where with the cooperation of the Company the financial rights related to the shares are independent from the holding of the shares

The Statutes of Advance Terrafund ADSIC do not provide for any restrictions on the voting rights.

23.7. Agreements between shareholders that may result in restrictions on transfer of shares or voting rights, of which the Company is aware

Advance Terrafund ADSIC is not aware of any agreements between shareholders that may result in restrictions on transfer of shares or voting rights.

23.8. Regulations related to the election and dismissal of the members of the management bodies of the Company and amendments and supplements to the Statutes

The Company is managed and represented by its Board of Directors consisting of 3 active individuals and/or legal entities elected by the General Meeting of Shareholders.

The Board of Directors is elected for a mandate of 5 /five/ years and the members of the first Board of Directors are elected for a mandate of 3 /three/ years. The members of the Board of Directors can be re-elected without restriction. After the expiry of the mandate of the members of the Board of Directors, they continue to exercise their duties until the election of a new Board of Directors by the General Meeting of Shareholders.

The Company's operations are managed by an Executive Director elected by the Board of Directors with a majority of 2/3 of the votes. The mandate of the Executive Director is the same as the mandate of the Board of Directors but the same continues to perform its duties until the election of a new Executive Director. The management powers of the Executive Director are determined with the decision of the Board of Directors on its election and the management agreement. The powers assigned to the Executive Director may be withdrawn at any time with a decision of the Board of Directors made with the majority necessary for its election. For its overall activity, the Executive Director is accountable to the Board of Directors. At each regular meeting of the Board of Directors, the Executive Director reports on its current activities. In the absence of the Executive Director, its functions related to the management of the Company are exercised temporarily by the Chairman of the Board of Directors.

The Statutes of Advance Terrafund ADSIC may be amended and supplemented by the General Meeting of Shareholders only.

23.9. Powers of the management bodies of the Company, including the right to make decisions on issue and redemption of shares of the Company

The members of the Board of Directors have equal rights and obligations regardless of the internal allocation of their functions and the granting of management and representation rights to some of them. The Board of Directors makes decisions on the activity of the Company insofar as such decisions are not within the exclusive competence of the General Meeting pursuant to the effective legislation and the Statutes.

The Board of Directors does not have the right to make decisions on redemption of shares of the Company.

23.10. Major agreements of the Company, which require actions or undergo amendment or termination due to changes in the control of the Company in case of mandatory tender offering and related consequences unless the disclosure of such information may result in material damage to the Company, such exception being inapplicable if the Company is obliged to disclose the information by law

Advance Terrafund ADSIC is not a party to any agreements, which require actions or undergo amendment or termination due to changes in the control of the Company in case of mandatory tender offering.

23.11. Agreements between the Company and its management bodies or employees for payment of compensation upon leaving or dismissal without legal grounds or upon termination of the labour relations for reasons related to tender offering

There are no agreements between Advance Terrafund ADSIC and its management bodies or employees for payment of compensation upon leaving or dismissal without legal grounds or upon termination of the labour relations for reasons related to tender offering.

24. Description of the major risks to which the Company is exposed

The activity of the Company may be exposed to various financial risks, the major of which are: the market risk (including currency and price risks), the credit risk, the interest rate risk and the liquidity risk. All these risks are described in the Financial Statements of the Company, including detailed description of the individual risk exposures of the Company.

The Company invests at least 90% of its portfolio in agricultural land and up to 10% in land in urbanized regions. Agricultural land is exposed to an insignificant risk of price and rent changes. The segment risk increase affects mainly real properties designated for construction. As a result of the global financial crisis, the Company has undertaken measures to reduce the share of properties in urbanized territories to limit the potential negative impact on its financial position and activity.

Advance Terrafund ADSIC strictly implements its policy to invest in high-quality properties that satisfy the needs of modern agriculture development and rent or lease to first-class leaseholders under conditions that are favourable for the Company.

25. All major events after the date of preparation of the Annual Financial Statements

No other events occurred after 31 December 2018 that would impose additional adjustments and/or disclosures in the Company's financial statements for the year ended 31 December 2018.

26. Scientific research and development activities

The Company does not perform any scientific research or development activities.

27. Established branches of the Company

The Company does not have any branches.

28. Other information disclosed at the discretion of the Company

The Company implements its investment strategy by selling concentrated own land and, at the same time, investing in agricultural land. The trend for 2019 is modest interest on behalf of the farmers in purchasing agricultural land, which decreases the opportunity for the Company to realize revenue from direct sales of agricultural land and sales with deferred payment terms. Over 162,000 decares are rented out as of the date of this report, i. e. 78% of the land owned as of the end of the reporting period. For the agricultural year 2019-2020, the expectations are to increase the volume of the rented out agricultural land.

Radoslav Manolov
Executive Director



27 March 2019

INFORMATION TO THE ANNUAL FINANCIAL STATEMENTS FOR 2018
OF ADVANCE TERRAFUND ADSIC, SOFIA

PURSUANT TO APPENDIX 11 OF ORDINANCE 2 DATED 17 SEPTEMBER 2003 ON THE
PROSPECTS IN PUBLIC OFFERING OF SECURITIES AND INFORMATION DISCLOSURE BY
PUBLIC COMPANIES AND OTHER ISSUERS OF SECURITIES

1. Structure of the capital of the Company, including securities not admitted to trading in a regulated market in the Republic of Bulgaria or another member state, indicating the different classes of shares, the rights and obligations for each class of shares and the share of each separate class of the total capital.

The structure of the capital of Advance Terrafund ADSIC, Sofia as of 31 December 2018 is as follows:

- Capital of Advance Terrafund ADSIC: BGN 85,110,091 divided into 85,110,091 ordinary registered dematerialized shares, each having nominal value of BGN 1;
- Shares acquired by legal entities – 146 legal entities holding a total of 63,072,708 shares of the capital of Advance Terrafund ADSIC;
- Shares acquired by individuals – 1,694 individuals holding a total of 22,037,383 shares of the capital of Advance Terrafund ADSIC.

2. Restrictions applicable to securities transfer, such as restrictions on securities holding or a requirement for approval by the Company or another shareholder.

Pursuant to the regulations of Art. 20 of the Statutes of Advance Terrafund ADSIC: *“Disposal of COMPANY shares shall be effected freely, without limitations or additional conditions, subject to the requirements of applicable legislation for dematerialised securities transactions.”*

The Statutes of Advance Terrafund ADSIC do not provide for any restrictions as to the transfer of shares of the Company or a requirement for approval of Company’s shares transfer by the Company or another shareholder.

3. Information about direct or indirect ownership of 5% or more of the voting rights in the General Assembly of the Company, including data about the shareholders, the amounts of their participating interests and the manners of shares holding.

As at 31 December 2018 the shareholders of Advance Terrafund ADSIC – individuals directly or indirectly holding 5% or more of the voting shares of the Company are:

Name	Stanimir Marinov Karolev
Manner of shares holding	Indirect
Number of voting shares in the capital as at 31.12.2018	16 537 440
Percentage of the capital and votes in the GAS	19,43 %

As at the 31 December 2018 the shareholders of Advance Terrafund ADSIC – legal entities holding 5% or more of the voting shares of the Company are:

Name	Karoll Finance EOOD
Number of voting shares in the capital as at 31.12.2018	15 022 594
Percentage of the capital and votes in the GAS	17,65 %

ADVANCE TERRAFUND ADSIC
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For the year ending on 31 December 2018

Name	INTERNATIONAL FINANCE CORPORATION
Number of voting shares in the capital as at 31.12.2018	15 068 523
Percentage of the capital and votes in the GAS	17,70%

Name	NN Universal Pension Fund
Number of voting shares in the capital as at 31.12.2018	5 021 276
Percentage of the capital and votes in the GAS	5,90 %

4. Data about shareholders with special control rights and description of such rights.

Advance Terrafund ADSIC does not have any shareholders with special control rights.

5. System for control in exercising voting rights when employees of the Company are also its shareholders and when control is not exercised directly by them.

Pursuant to the provisions of Article 21, Paragraph 1 of the Statutes of Advance Terrafund ADSIC: *“Each share shall give its holder the right to one vote, the right to dividend and the right to liquidation quota unless otherwise provided for in the decision of the Company’s body on a the particular issue of shares. A Company’s body shall not have any right to provide more than 1 /one/ vote per share.”*

Pursuant to Article 22 of the Statutes of Advance Terrafund ADSIC: *“Each share shall give its holder the right to one vote in the General Assembly of Shareholders unless issued as a non-voting share. Voting rights shall be exercised by the persons entered in the registers of the Central Depository as shareholders 14 days prior to the date of the particular session of the General Meeting.”*

6. Restrictions on the voting rights such as restrictions on the voting rights of shareholders holding a certain percentage or number of votes, deadline for voting rights exercising or systems where the financial rights related to the shares are independent from the shares holding with the cooperation of the Company.

The Statutes of Advance Terrafund ADSIC do not provide for any restrictions on the voting rights, such as restrictions on the voting rights of shareholders holding a certain percentage or number of votes, deadline for voting rights exercising or systems where the financial rights related to the shares are independent from the shares holding with the cooperation of the Company.

7. Agreements between shareholders of which the Company is aware that may result in restrictions on transfer of shares or voting rights.

The Company is not aware of any agreements between shareholders that may result in restrictions on transfer of shares or voting rights.

8. Provisions regarding the election and discharge of the members of the management bodies of the Company and amendments and supplements to the Statutes.

Provisions of the Statutes of Advance Terrafund ADSIC regarding the election and discharge of members of the Board of Directors of the Company:

“Art. 43. /1/ The COMPANY shall be managed and represented by a Board of Directors in accordance with the provisions of the legislation of the Republic of Bulgaria, these Statutes and the decisions of the General Assembly of Shareholders.

/2/ The Board of Directors shall take decisions on any and all issues relating to the COMPANY, which fall outside the exclusive competence of the General Assembly of Shareholders.

/3/ The Board of Directors shall report to the General Assembly of Shareholders for its overall activity.”

ADVANCE TERRAFUND ADSIC
INFORMATION PURSUANT TO APPENDIX 11 OF ORDINANCE 2
For the year ending on 31 December 2018

“Art.44. /1/ The Board of Directors shall consist of 3 (three) to 5 (five) legally capable individuals and/or legal entities elected by the General Assembly of Shareholders.

/2/ Members of the Board of Directors of the COMPANY may not be persons who at the time of the election have been convicted with enforced sentence for offences against property, the economy or against the financial, tax and social security systems, committed in the Republic of Bulgaria, unless they have been exonerated.

/3/ Legal entities shall be represented in the Board of Directors by their legal representative or a proxy with a notary certified authorization.

/4/ The legal entities shall be jointly and unlimitedly liable together with the other members of the Board of Directors for the obligations arising out of the actions of their representatives.”

“Art.45. /1/ The members of the Board of Directors shall have higher education and shall not:

1. have been convicted for a premeditated offence at public law;

2. have been adjudicated in bankruptcy as a sole trader or general partner in a company and shall not be undergoing bankruptcy proceedings;

3. have held previous membership of a management body or supervisory body of a company or co-operative wound up due to insolvency within the two years last preceding the date of the adjudication in bankruptcy, if unsatisfied creditors remain;

4. be under effective disqualification from occupying a position of property accountability;

5. be spouses or lineal or collateral relatives to any such person or to a member of a management or supervisory body of the servicing company up to the third degree of consanguinity.

/2/ The requirements referred to in paragraph 1 shall also apply to natural persons who represent legal entities – members of the Board of Directors.

/3/ At least one third of the members shall be independent persons. An independent person in the Board of Directors may not be:

1. an employee of the COMPANY;

2. a shareholder who holds directly or indirectly through related parties at least 25 per cent of the votes in the General Meeting or is a related party to the COMPANY;

3. a person who is in long-term commercial relations with the COMPANY;

4. a member of a management body or supervisory body, a procurator or an employee of a company or another legal entity under item 2 and item 3 of this paragraph;

5. a person related to another member of the management body of the COMPANY;

“Art.46. /1/ The Board of Directors shall be elected for a term of up to 5 (five) years.

/2/ The members of the first Board of Directors shall be elected for a term of 3 (three) years.

/3/ The members of the Board of Directors may be re-elected without limitations.

/4/ After expiry of their term of office the members of the Board of Directors shall continue to perform their functions until election by the General Meeting of Shareholders of a new Board of Directors.”

“Art.52. /1/ The COMPANY shall be managed operationally by an Executive Director elected by a majority of 2/3 of the votes of the Board of Directors.

/2/ The term of office of the Executive Director shall be equal to the term of office of the Board of Directors and the Executive Director shall continue performing his/her functions until election of a new Executive Director.

/3/ The management authority of the Executive Director shall be determined by the decision of the Board of Directors on his/her election and the management contract.

/4/ Authorisation of the Executive Director may be withdrawn at any time by a decision of the Board of Directors taken with the majority required for his/her election.

/5/ The Executive Director shall report to the Board of Directors for his/her overall activity.

/6/ He/she shall report currently for his/her activity at every meeting of the Board of Directors.

/7/ In his/her absence the management functions of the Executive Director shall be temporarily performed by the Chairman of the Board of Directors.”

Provisions of the Statutes of Advance Terrafund ADSIC regarding amendments and supplements of the Statutes:

“Art. 32. The General Assembly of Shareholders shall:

1. amend and supplement these Statutes; ”

9. Powers of the management bodies of the Company, including the right to make decisions on issue and redemption of shares of the Company.

“Art. 49. /1/ The members of the Board of Directors shall have equal rights and obligations irrespective of the internal distribution of functions among them and the right to management and representation granted to some of them.

/2/ The Board of Directors shall take decisions on the activity of the Company to the extent such decisions do not fall within the exclusive competence of the General Assembly in accordance with effective legislation and these Statutes.

/3/ The Board of Directors of the Company shall:

1. assign valuation of properties prior to their acquisition by the Company to one or more experts with qualification in this field in compliance with the requirements of these Articles of Association and SPICA;

2. take decision on entering into a preliminary contract or a contract in the form of title deed for acquisition and/or disposal of real estate or real right under Article 9 herein in compliance with the limitations provided therein and in the effective legislation;

3. appoint and discharge Executive Director/s and a Chairman and a Deputy Chairman of the Board of Directors;

4. appoint and discharge the personnel of the COMPANY, including a director for liaison with investors, and shall determine the amount of their remuneration;

5. carry out activities for preparation of the annual financial statements;

6. adopt a proposal for profit distribution;

7. subject to approval by the FSC, enter into, terminate or cancel contracts with the servicing company/ies and with the depository bank under the terms and on the grounds set out therein or in the effective Bulgarian civil legislation. The Board of Directors shall provide a detailed report on the grounds that led to termination or cancellation of a contract under the foregoing sentence at the first General Assembly of Shareholders after the termination or cancellation;

8. control execution of contracts with the servicing company/ies and with the depository bank and assist the servicing company/ies and the depository bank in the execution of their functions in accordance with effective legislation and these Statutes;

9. elect and authorize investment intermediaries to underwrite and/or service the issues of the Company's capital increases and the issues of bonds issued by the Company;

10. adopt its Procedural Rules and approve Organisational Rules of the Company;

11. in the cases provided for by law and/or at the discretion of the Board of Directors shall, upon occurrence of circumstances of material importance for the Company, convene the General Assembly of Shareholders;

12. take decisions on investing the free funds of the Company in assets under Art. 12, paragraphs 1 and 2 hereof and in compliance with the limitations provided herein;

13. take decisions on entering into loan (bank credit) agreement in compliance with the provisions of Art. 11, paragraph 2, items 2 and 3 of these Statutes and on provision of collateral for obligations of the Company in compliance with the normatively set limitations;

14. Within 5 (five) years, effective from the date of incorporation of the COMPANY, the Board of Directors may increase the capital of the COMPANY through issuance of new shares. The total amount by which the capital of the COMPANY may be increased under the foregoing sentence may not exceed BGN 150,000,000 (one hundred fifty million leva) irrespective of the number of realized issues (separate increases) through which the said maximum increase is realized. For an increase under the terms of this provision the rules of Art. 27 hereof shall apply. In case of a successful capital increase under the terms of this provision the Board of Directors shall file the increase for registration with the Trade Register, attaching to the application the confirmation of the prospectus for the increase issued by FSC, an excerpt of the Company's Statutes with the recorded amount of the Company's capital and number of shares after the increase;

15. take decisions on effecting all transactions of the Company with stakeholders subject to compliance with the limitations hereof and effective legislation. In the cases of the foregoing sentence the decision of the Board of Directors shall specify the material conditions of the transaction, including parties, subject and value, as well as in whose favour the transaction is effected;

16. appoint a procurator of the Company;

17. adopt a programme for good corporate governance of the Company in compliance with internationally recognized standards for good corporate governance determined by the Deputy Chairman heading Investment Supervision Division at the Financial Supervision Commission;

18. Within 5 (five) years effective from the date of incorporation of the COMPANY, the Board of Directors may issue bonds through public offering. The total amount of the nominal value of the bonds issued under the terms of the foregoing sentence may not exceed BGN 150,000,000 (one hundred fifty million leva) irrespective of the number of realized issues through which the said total amount is reached. For every proposal for issuance of a new issue of preference bonds the general meeting/s of bondholders from previous unredeemed issues shall give its/their consent therefore before the competent body of the Company takes a final decision on issuing the bonds. Issuance of bonds by the Company shall be carried out in accordance with the requirements of section V in chapter VI of POSA and the applicable provisions of section VII in chapter XIV of CA;

ADVANCE TERRAFUND ADSIC
INFORMATION PURSUANT TO APPENDIX 11 OF ORDINANCE 2
For the year ending on 31 December 2018

19. take decisions on insurance of the real estates acquired by the COMPANY;
20. elect and enter into a contract with an investment intermediary with which client sub-accounts for the new shares of their holders shall be opened in case of an increase of the Company's capital in accordance with the provisions of Art. 27a of Ordinance No. 1 dated 15 September 2003 on the requirements to the activity of investment intermediaries.

21. take decisions on any other issue falling outside the exclusive competence of the General Assembly under a legal provision or these Statutes.

/4/ Subject to compliance with the limitations under Art. 114 and arising from POSA and the effective legislation the Board of Directors of the Company shall be entitled by unanimous decision to authorize initiation of the transactions under Art. 236, para. 2 of the Commerce Act.

/5/ The expression "stakeholders" within the meaning of paragraph 3, item 15 of this Article as well as anywhere referred to in these Statutes shall cover: the members of the Company's Board of Directors, its procurator (if such is elected), as well as the persons who directly or indirectly hold at least 25% (twenty five per cent) of the votes in the General Assembly of the Company or control it where they or persons related to them:

a) are a party, its representative or intermediary on a transaction with the COMPANY or transactions or actions effected in their favour by the COMPANY; or

b) hold directly or indirectly at least 25% (twenty five per cent) of the votes in the General Assembly or control a legal person that is a party, its representative or intermediary on the transaction or in whose favour the COMPANY effects transactions or actions;

c) are members of the Board of Directors or procurators of the legal person under "b". "

Limitations in the Powers of the Board of Directors:

"Art.50 /1/ In conducting its management functions in the COMPANY the Board of Directors shall strictly observe the limitations of Art. 114 and arising from POSA and the effective legislation. "

10. Major agreements of the Company, which require actions or undergo amendment or termination due to changes in the control of the Company in case of mandatory tender offering and related consequences unless the disclosure of such information may result in material damage to the Company, such exception being inapplicable if the Company is obliged to disclose the information by law.

Advance Terrafund ADSIC is not a party to any agreements, which require actions or undergo amendment or termination due to changes in the control of the Company in case of mandatory tender offering.

11. Agreements between the Company and its management bodies or employees for payment of compensation upon leaving or dismissal without legal grounds or upon termination of the employment relations for reasons related to tender offering.

There are no agreements between Advance Terrafund ADSIC and its management bodies or employees for payment of compensation upon leaving or dismissal without legal grounds or upon termination of the employment relations for reasons related to tender offering.

Radoslav Manolov
Executive Director



27 March 2019

ADDITIONAL INFORMATION
to the Annual Financial Statements for 2018 of
ADVANCE TERRAFUND ADSIC
pursuant to Art. 41, para 1, item 7 of Ordinance No 2

1. Relative share of the assets rented out or leased for use against payment of the total amount of securitized assets:

As at 31 December 2018 the relative share of the assets rented out or leased is 78.27 % of the total securitized assets to date.

2. Information about sale or purchase of a new asset of value exceeding 5% of the value of securitized assets, as well as transactions executed after the date of preparation of the Annual Financial Statements:

There is no executed sale or purchase of a new asset of value exceeding 5% of the value of securitized assets or transactions executed after the date of preparation of the Annual Financial Statements.

3. Constructions, repairs and improvements of real estate:

There are no constructions, repairs or improvements of real estate.

4. Relative share of outstanding rental and lease payments of the total receivables arising from all rental and lease agreements concluded by the Company:

As at 31 December 2018 there are no unpaid installments under financial leasing contracts.
The relative share of the outstanding rents and leases of the total receivables of the Company arising from all rental and lease agreements concluded by the Company is as follows:

Financial year	Outstanding rents and leases as at 31.12.2018	Outstanding rents and leases as at the reporting date
2017 – 2018	19.41%	17.10%
2016 – 2017	0.46 %	0.46 %
2015 – 2016	3.09%	3.09%
2014 – 2015	4.08%	4.08%

The Company has undertaken actions to collect the overdue receivable rents and leases through court proceedings, whereas in most cases, it uses the expedient procedure under Article 417 of the Civil Proceedings Code, filing a request for issuance of an enforcement order and a writ of execution against the debtors.

Radoslav Manolov
Executive Director

27 March 2019



**DECLARATION
OF CORPORATE GOVERNANCE
IN ACCORDANCE WITH ART. 100N, PAR 8 IN CONJUNCTION WITH PARA 7, ITEM 1 OF
THE LAW ON PUBLIC OFFERING OF SECURITIES**

Advance Terrafund ADSIC is a special investment purpose company registered and operating in accordance with the Act on Special Investment Purpose Companies. Advance Terrafund ADSIC is a public company within the meaning of the Law on Public Offering of Securities. In accordance with the provisions of the Law, Advance Terrafund ADSIC has one-tier management system and is managed and represented by its Board of Directors.

I. Information about the Code followed by Advance Terrafund ADSIC

In consideration of the right of present shareholders and potential investors to obtain information and in compliance with the requirements set forth in Article 100n, Paragraph 7 and Paragraph 8 of the Law on Public Offering of Securities, the Board of Directors of Advance Terrafund ADSIC hereby agrees to follow, as applicable, the National Corporate Governance Code (NCGC) drafted in October 2007 and approved by the National Corporate Governance Committee, subsequently amended in February 2012 and in April 2016 and approved with Decision No 461 – CGC made on 30 June 2016 by the Deputy Chairman of the Financial Supervision Commission in charge of the Investment Supervision Division.

II. Application of individual provisions of the NCGC to the organization of the activity of Advance Terrafund ADSIC

The part of Chapter One of the NCGC concerning the one-tier management system applies to the structure of the Company as the two-tier management system is not applicable in relation to special investment purpose companies in accordance with the requirements of the Act on Special Investment Purpose Companies. The individual items of Chapter One of the NCGC apply as follows:

1. The provisions of Item 1 of the NCGC defining the general frameworks for the functions and responsibilities of the Board of Directors apply as a whole – the corporate governance body has adopted and complies with a Code of Ethical Conduct in accordance with the given recommendations on corporate governance and the Company functions on the basis of an internal control and risk management system.
2. The rules of Item 2 of the NCGC on election and dismissal of members of the Board of Directors fully apply.
3. The corporate governance structure of Advance Terrafund ADSIC is in line with Item 3 of the NCGC applicable as a whole under the condition of the following exceptions: there are not any limitations on the number of companies where the members of the Board of Directors are entitled to hold management positions or the number of successive mandates of independent members set forth at the discretion of the General Meeting of Shareholders upon approval of the Articles of Association.
4. The Board of Directors functions in accordance with an approved policy on determination of the remuneration of members prepared in accordance with Ordinance No 48 on the requirements to remuneration and in accordance with the rules of Item 4 of the NCGC as a whole.
5. The Board of Directors complies with the requirements of Item 5 of the NCGC as a whole, therefore the Company applies a system for avoidance of conflicts of interests and the Management discloses due information where such conflicts of interests arise.
6. In accordance with the rules set forth in Item 6 of Chapter One and Items 17 through 21 of Chapter Two of the NCGC and the requirements of the Law on Independent Financial Audit, Advance Terrafund ADSIC has established an Audit Committee in the composition of three external and independent members as follows: Kamen Petrov Kamenov – Chairman and Zhechko Dimitrov Petrov and Petar Doynov Doynov – Members. The Audit Committee functions in accordance with specially developed and adopted rules and principles of functioning approved by the Board of Directors that are available at the website of the Company.

**ADVANCE TERRAFUND ADSIC
CORPORATE GOVERNANCE DECLARATION**

For the year ended 31 December 2018

For the independent financial audit within the meaning of the Law on Independent Financial Audit, the General Meeting of Shareholders of Advance Terrafund ADSIC has elected Ernst & Young Audit OOD as the registered auditor to give an independent opinion on the reliability of all material aspects of the Annual Financial Statements prepared in accordance with the Bulgarian accounting legislation.

7. The recommendation of Item 21 of Chapter Two the NCGC applies as to the internal control and risk management system functioning within the Company.

8. The Board of Directors hereby agrees to comply with Chapter Three of the NCGC as a whole and, to that effect, the Company has adopted a document regulating the rights of shareholders that is also available at the website of the Company. Currently, the remote presence of the General Meeting of Shareholders through technical means is not applicable as that method cannot secure due and legally valid participation, which would impede the related check and registration of attendants, the taking of session minutes and the timely presentation of prepared documents for entry into the Commercial Register.

9. The Board of Directors hereby agrees to comply with Chapter Four of the NCGC as a whole – in accordance with its provisions, relevant rules and policies have been developed, adopted and published at the website of the Company that is available in Bulgarian and in English.

10. The Board of Directors hereby agrees to comply with Chapter Five of the NCGC, concerning stakeholders, as a whole – in accordance with its provisions, Policies on Consideration of Stakeholder Interests and Transactions with Stakeholders have been developed, adopted and published at the website of the Company.

11. The Board of Directors hereby agrees not to apply Chapter Six of the NCGC as the rules and policies that it defines are not relevant to the organization, structure and scope of activity of the Company except for Item 44 of the NCGC. The Company ensures effective interaction with its shareholders – institutional investors and with the regulated markets in financial instruments, Bulgarian Stock Exchange – Sofia in particular. Advance Terrafund ADSIC applies a consistent open door policy. In addition to the sessions of the General Meeting of Shareholders, the Company invites investors to attend the Investor Day organized each May and November at the office of the Company.

All rules and policies developed by the Board of Directors, adopted and/or approved in accordance with this Code are available at the website of the Company.

III. Description of the main characteristics of the internal control and risk management systems of Advance Terrafund ADSIC in relation to the process of financial reporting

The Company applies an internal control system that guarantees a reasonable assurance that the corporate objectives and tasks will be achieved and performed. It includes identification, management and assessment of business risks and represents a dynamic process changing along with the changes to the personnel and the circumstances inherent to the activity of the Company. The system is structured in a manner ensuring prevention and avoidance of errors or violations and identification of occurred errors or violations within reasonable time limits.

In addition to the Internal Control and Risk Management System, the Company applies policies, rules and procedures that ensure effective functioning of the systems of reporting and disclosure of information by the Company and support the process of financial reporting. These rules define the different types of rights and obligations of responsible persons, the volume of information disclosed by the Company, the access to various types of information and the responsibilities relating to the management of information flows. The established risk management system ensures effective internal control in the preparation and management of all corporate documents, including the Financial Statements and other regulated information to be disclosed by the Company in accordance with the applicable legal provisions.

On a quarterly basis, the Audit Committee of the Company reviews the processes of financial reporting and the internal control and risk management systems in relation to the preparation of the Interim Financial Statements of the Company. The key types of risks relating to the activity of the Company and the policy on their management are defined in Section III of the Internal Control and Risk Management System and divided in two main categories: internal – risks relating to the work organization of the Company and external – risks relating to macroeconomic, political and other factors that affect or may affect the activity of the Company.

The risks relating to the activity are described in detail in Section 4. Risk Factors of the Registration Instrument (pages 8 through 20) of the Prospectus for Public Offering of Securities approved with Decision No 788-E made on 6 July 2008 by the Financial Supervision Commission on admission of the shares of Advance Terrafund ADSIC to trading in a regulated market.

IV. Information pursuant to Article 10, Paragraph 1, Letters c, d, e, f and i of Directive 2004/25/EC of the European Parliament and of the Council of 21 April 2004 on takeover bids

1. Advance Terrafund ADSIC has not any shareholdings in other commercial companies and does not make any investments in securities.
2. Advance Terrafund ADSIC does not have any shareholders with special control rights.
3. The Statutes of Advance Terrafund ADSIC do not provide for any restrictions on the voting rights.
4. The rules on appointment or replacement of members of the Board of Directors and on the amendment of the Articles of Incorporation are set forth in the Statutes of Advance Terrafund ADSIC in accordance with the provisions of the Law on Commerce, the Act on Special Investment Purpose Companies, the Law on Public Offering of Securities and the other applicable legal acts.

The Company is managed and represented by its Board of Directors consisting of 3 active individuals and/or legal entities elected by the General Meeting of Shareholders. The Board of Directors is elected for a mandate of 5 /five/ years and the members of the first Board of Directors are elected for a mandate of 3 /three/ years. The members of the Board of Directors can be re-elected without restriction. After the expiry of the mandate of the members of the Board of Directors, they continue to exercise their duties until the election of a new Board of Directors by the General Meeting of Shareholders,

The Company's operations are managed by an Executive Director elected by the Board of Directors with a majority of 2/3 of the votes. The mandate of the Executive Director is the same as the mandate of the Board of Directors but the same continues to perform its duties until the election of a new Executive Director. The management powers of the Executive Director are determined with the decision of the Board of Directors on its election and the management agreement. The powers assigned to the Executive Director may be withdrawn at any time with a decision of the Board of Directors made with the majority necessary for its election. For its overall activity, the Executive Director is accountable to the Board of Directors. At each regular meeting of the Board of Directors, the Executive Director reports on its current activities. In the absence of the Executive Director, its functions related to the management of the Company are exercised temporarily by the Chairman of the Board of Directors. The Statutes of Advance Terrafund ADSIC may be amended and supplemented by the General Meeting of Shareholders only.

5. The powers of the members of the Board of Directors are set forth in Article 49 of the Statutes of the Company in accordance with the Law on Commerce and the Act on Special Investment Purpose Companies. The members of the Board of Directors have equal rights and obligations regardless of the internal allocation of their functions and the granting of management and representation rights to some of them. The Board of Directors makes decisions on the activity of the Company insofar as such decisions are not within the exclusive competence of the General Meeting of Shareholders pursuant to the effective legislation and the Statutes.

The Board of Directors does not have the right to make decisions on redemption of shares of the Company.

V. The composition and functions of the management body and the established committees /Advance Terrafund ADSIC does not have a functioning supervisory body as it has one-tier management system/ are set forth in accordance with the Law on Commerce, the Act on Special Investment Purpose Companies, the Law on Independent Financial Audit and the Statutes of the Company and Rules of Procedure of the Board of Directors have been prepared on that basis.

1. Composition:

The Board of Directors of Advance Terrafund ADSIC is composed of three members:

Borislav Vitanov Petkov – Chairman of the Board of Directors

Radoslav Iliev Manolov – Executive Director

Nencho Ivanov Penev – Member of the Board of Directors

**ADVANCE TERRAFUND ADSIC
CORPORATE GOVERNANCE DECLARATION**

For the year ended 31 December 2018

2. Functions:

The Board of Directors is a collective management body of the Company. It reports its activities to the General Meeting of Shareholders and performs its functions in accordance with the requirements set forth in the effective legislation and the Statutes of the Company.

The Board of Directors makes decisions on the activity of the Company insofar as such decisions are not within the exclusive competence of the General Meeting of Shareholders pursuant to the effective legislation and the Statutes.

In performing its duties, the Board of Directors undertakes the following main actions in relation to the scope of activity of the Company:

1. makes a decision on the conclusion of a preliminary agreement or an agreement in the form of notary deed on acquisition and/or disposal of real estate or real right subject to the limitations set forth in the Statutes and the effective legislation;
2. appoints and dismisses persons to act as an Executive Director/Executive Directors and Chairman and Deputy Chairman of the Board of Directors;
3. appoints and dismisses employees of the Company, including the person to act or acting as an Investor Relations Director, and determine their remuneration;
4. undertakes actions related to the preparation of the Annual Financial Statements;
5. approves a proposal on profit allocation;
6. concludes, terminates and cancels agreements with the servicing company and the depository bank as set forth therein or in the effective Bulgarian legislation subject to the approval of the Financial Supervision Commission and presents a comprehensive report on the grounds for termination or cancellation of such agreements at the next session of the General Meeting of Shareholders;
7. controls the performance of all agreements with the servicing company and the depository bank and render assistance to the latter in the course of performance of their functions in accordance with the effective legislation and the Statutes;
8. elects and authorizes investment intermediaries to undertake and/or service the issues of shares upon increase of the capital of the Company and the issues of bonds issued by the Company;
9. adopts Rules of Procedure to govern its activities and approve Internal Organization Rules of the Company;
10. immediately convokes a session of the General Meeting of Shareholders where material circumstances concerning the Company occur in the cases provided for by law and/or at own discretion;
11. makes decisions on investment of the free funds of the Company in assets pursuant to Article 12, Paragraphs 1 and 2 of the Statutes subject to the limitations set forth therein;
12. makes a decision on the conclusion of a loan (bank credit) agreement in accordance with the requirements of Article 11, Paragraph 2, Items 2 and 3 of the Statutes and on provision of collaterals to secure obligations of the Company subject to the applicable regulatory limitations;
13. makes decisions on the execution of all transactions between the Company and stakeholders subject to the limitations set forth in the Statutes and the effective legislation;
14. elects a person to act as a Procurator of the Company;
15. approves a good corporate governance program of the Company in accordance with the internationally accepted standards of good corporate governance determined by the Deputy Chairman in charge of the Investment Supervision Division of the Financial Supervision Commission;
16. makes decisions on insurance of real estates acquired by the Company;

**ADVANCE TERRAFUND ADSIC
CORPORATE GOVERNANCE DECLARATION**

For the year ended 31 December 2018

17. elects and concludes an agreement with an investment intermediary for opening client sub-accounts for the new shares in the name of their holders upon increase of the capital of the Company;
18. makes decisions on all other issues beyond the exclusive scope of competence of the General Meeting of Shareholders in accordance with the effective legislation or the Statutes;
19. makes unanimous decision on execution of the transactions pursuant to Article 236, Paragraph 2 of the Law on Commerce subject to the limitations set forth in Article 114 and the following of the Law on Public Offering of Securities and the effective legislation.

3. Servicing company

With a view to the specifics of the Company and in accordance with the Act on Special Investment Purpose Companies, the activity of Advance Terrafund ADSIC is administered by Karoll Finance EOOD, a servicing company providing consulting and other services such as administrative, accounting and recruitment services.

4. Investor Relations Director

As from the incorporation of Advance Terrafund ADSIC in 2005, the structure of the Company includes, in addition to the three members of the Board of Directors, the position of Investor Relations Director established and functioning in accordance with the provisions of the Act on Special Investment Purpose Companies that is held by Atanas Todorov Dimitrov appointed under a labour agreement.

5. Committees

5.1. In accordance with the requirements of the effective legislation, the General Meeting of Shareholders of Advance Terrafund ADSIC has elected/appointed an Audit Committee in the composition of:

Kamen Petrov Kamenov – Chairman
Zhechko Dimitrov Petrov
Petar Doynov Doynov

5.2. The Audit Committee performs the following main duties:

1. informs the management body of the Company of the statutory audit results and explains how the statutory audit confirms the reliability of financial reporting and the role of the Audit Committee in that process;
2. monitors the process of financial reporting and issues and makes recommendations and proposals to guarantee its effectiveness;
3. monitors the effectiveness of the internal control system, the risk management system and the internal audit activity relating to the financial reporting of the Company;
4. monitors the statutory audit of the Annual Financial Statements, including its conduct, taking into consideration the findings and conclusions of the Commission for Public Oversight in relation to the application of Article 26, Paragraph 6 of Regulation (EU) No 537/2014;
5. verifies and monitors the independence of the registered auditors in accordance with the requirements of Chapter Six and Chapter Seven of the Law and Article 6 of Regulation (EU) No 537/2014, including the relevance of provision of services outside the audit of the Company pursuant to Article 6 of the same Regulation;
6. bears responsibility for the selection of a registered auditor and issues a recommendation on its appointment;
7. notifies the Commission for Public Oversight and the management body of the Company of each approval issued pursuant to Article 64, Paragraph 3 and Article 66, Paragraph 3 of the Law on Independent Financial Audit within 7 days as from decision date;
8. reports its activity to the appointing body;

ADVANCE TERRAFUND ADSIC
CORPORATE GOVERNANCE DECLARATION
For the year ended 31 December 2018

9. prepares and presents an annual report on its activity to the Commission for Public Oversight by 30 June.

VI. In consideration of its small structure, composed of three members of the Board of Directors and one employee holding the position of Director of relations with investors and on the grounds of Article 100n, Paragraph 12 of the Law on Public Offering of Securities, Advance Terrafund ADSIC hereby decides not to apply a policy of diversification in relation to its management body in terms of age, sex or education and professional experience.

Radoslav Manolov
Executive Director



27 March 2019

Independent auditor's report

To the shareholders of Advance Terrafund ADSIC

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of Advance Terrafund ADSIC (the Company), which comprise the statement of financial position as at 31 December 2018, and the 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 give a true and fair view of the financial position of the Company as at 31 December 2018, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU).

Basis for Opinion

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

Key Audit Matters

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

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

Translation in English of the official Auditor's report issued in Bulgarian.



A member firm of Ernst & Young Global Limited

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47A, Tsarigradsko Shose Blvd., floor 4
UIC: 130972874, VAT # BG130972874
BGN IBAN: BG48 UNCR 7000 1520 6686 91
SWIFT/BIC: UNCRBGSF with Unicredit Bulbank AD



Key audit matter	How our audit addressed the key audit matter
<p>Valuation of investment properties</p>	
<p>The Company's disclosures about the valuation of investment properties are presented in Note 6.1 to the financial statements.</p>	
<p>The Company's investment property portfolio comprises agricultural and non-agricultural lands, aggregating BGN 218,820 thousand as at 31 December 2018. This carrying value is determined based on an estimation of the fair value of individual properties from the portfolio at the reporting date. The Company's policy is to engage an external valuation expert for this purpose. The fair valuation of properties is performed using valuation techniques utilizing a combination of observable and unobservable inputs, information for which is disclosed in Note 6.1 to the financial statements. The fair valuation technique used by the external appraiser is market comparable method as disclosed in Note 6.1. The fair valuation is inherently uncertain, involving various assumptions.</p> <p>Due to the significance of the investment properties (representing 86% of the Company's total assets) and the related estimation uncertainty, this is considered a key audit matter.</p>	<p>In this area, our audit procedures included, among others:</p> <ul style="list-style-type: none"> • We evaluated the objectivity, independence and expertise of the external appraiser. • We involved our internal valuation experts to assist us in assessing the valuation techniques applied as well as the inputs and assumptions used (such as sale and offer prices) by reviewing the available market data and performing relevance analysis. • We performed comparison of the key input data used by the external appraiser such as offer prices and square meters to price ranges applied in historical transactions and data from the property register respectively. • We evaluated the adequacy of the investment property valuation disclosures.





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Key audit matter	How our audit addressed the key audit matter
Adoption of IFRS 15 and critical judgements and estimates on sales with deferred payment terms	
<p>The Company's disclosures about the adopted revenue recognition policies and the significant accounting judgements, estimates and assumptions are presented in Note 2.2 and Note 3 to the financial statements.</p>	
<p>In developing its revenue recognition policy related to the treatment of sales with deferred payment terms under IFRS 15 Revenue from contracts with customers, and as disclosed in Note 2.2 and Note 3 to the financial statements, the Company has applied different estimates and judgements related to, among others:</p> <ul style="list-style-type: none">• determining the timing of transfer of control on investment properties to the buyer;• estimating the variable consideration resulting from the early payment and cancellation options and assessing the constraint on the respective variable consideration;• judgements related to the presence of significant financing component in sales with deferred payment terms. <p>In 2018, the Company has recognized revenue of BGN 2,150 thousand related to sales with deferred payment terms. Due to the significance of the revenue from sales with deferred payment terms (representing 90% of the Company's total revenue from contracts with customers - revenue from sales of investment property) and the embedded uncertainty about the critical assumptions and estimates, this is considered a key audit matter.</p>	<p>In this area, our audit procedures included, among others:</p> <ul style="list-style-type: none">• We examined support for management judgement applied in determining the effects from the adoption of IFRS 15 Revenue from contracts with customers and the conclusion reached that the adoption of the Standard does not have an impact on opening balance of equity as of the adoption date by inspection of terms and conditions of the underlying contracts and evaluating whether the policies adopted are consistent with the requirements of IFRS 15.• We assessed the reasonability of the conclusions reached by the Company on key judgements related to sales with deferred payment terms by performing independent inspection for the presence of various contrary audit evidence and indicators, including inspection for the presence of any cancellation of contracts, analysis of the ratio between the fair value of the sold properties and the net present value of the payments subject to return upon cancellation and analysis of historical data on the movement in the fair values of agricultural lands.• We involved our internal valuation experts to assist us in assessing the reasonability of the estimates applied by the management on the discount factor used for determining the significant financing component and recalculated the adjustment in the promised amount of consideration for the effects of the time value of money.

	<ul style="list-style-type: none">• We also assessed the adequacy of the disclosures regarding the revenue recognition policy and the key judgements and estimates to determine they were in accordance with IFRS 15 Revenue from contracts with customers.
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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.

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 presentation of the financial statements that give a true and fair view 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.

Report on Other Legal and Regulatory Requirements

Additional Matters to be Reported under the Accountancy Act and the Public Offering of Securities Act

In addition to our responsibilities and reporting in accordance with ISAs, described above in the *Information Other than the Financial Statements and Auditor's Report Thereon* section, in relation to the management report, including the corporate governance statement, we have also performed the procedures added to those required under ISAs in accordance with the Guidelines on New and Expanded Auditor's Reports and Auditor's Communication of the professional organisation of certified public accountants and registered auditors in Bulgaria, i.e. the Institute of Certified Public Accountants (ICPA). These procedures refer to testing the existence, form and content of this other information to assist us in forming opinions about whether the other information includes the disclosures and reporting provided for in Chapter Seven of the Accountancy Act and in the Public Offering of Securities Act (Art. 100m, paragraph 10 of the POSA in conjunction with Art. 100m, paragraph 8(3) and (4) of the POSA) applicable in Bulgaria.

Opinion in connection with Art. 37, paragraph 6 of the Accountancy Act

Based on the procedures performed, our opinion is that:

- a) The information included in the management report referring to the financial year for which the financial statements have been prepared is consistent with those financial statements.
- b) The management report has been prepared in accordance with the requirements of Chapter Seven of the Accountancy Act and of Art. 100(m), paragraph 7 of the Public Offering of Securities Act.
- c) The corporate governance statement referring to the financial year for which the financial statements have been prepared presents the information required under Chapter Seven of the Accountancy Act and Art. 100 (m), paragraph 8 of the Public Offering of Securities Act.



Opinion in connection with Art. 100(m), paragraph 10 in conjunction with Art. 100 m, paragraph 8(3) and (4) of the Public Offering of Securities Act

Based on the procedures performed and the knowledge and understanding obtained about entity's activities and the environment in which it operates, in our opinion, the description of the main characteristics of entity's internal control and risk management systems relevant to the financial reporting process, which is part of the management report (as a component of the corporate governance statement) and the information under Art. 10 paragraph 1(c), (d), (f), (h) and (i) of Directive 2004/25/EC of the European Parliament and of the Council of 21 April 2004 on Takeover Bids, do not contain any material misrepresentations.

Additional Reporting on the Audit of the Financial Statements in connection with Art. 100(m), paragraph 4(3) of the Public Offering of Securities Act

Statement in connection with Art. 100(m), paragraph 4(3)(b) of the Public Offering of Securities Act

The information about related party transactions is disclosed in Note 14 to the financial statements. Based on the audit procedures performed by us on related party transactions as part of our audit of the financial statements as a whole, no facts, circumstances or other information have come to our attention based on which to conclude that the related party transactions have not been disclosed in the accompanying financial statements for the year ended 31 December 2018, in all material respects, in accordance with the requirements of IAS 24 *Related Party Disclosures*. The results of our audit procedures on related party transactions were addressed by us in the context of forming our opinion on the financial statements as a whole and not for the purpose of expressing a separate opinion on related party transactions.

Statement in connection with Art. 100(m), paragraph 4(3)(c) of the Public Offering of Securities Act

Our responsibilities for the audit of the financial statements as a whole, described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report include an evaluation as to whether the financial statements present the significant transactions and events in a manner that achieves true and fair presentation. Based on the audit procedures performed by us on the significant transactions underlying the financial statements for the year ended 31 December 2018, no facts, circumstances or other information have come to our attention based on which to conclude that there are material misrepresentations and disclosures in accordance with the relevant requirements of IFRS as adopted by the EU. The results of our audit procedures on Company's transactions and events significant for the financial statements were addressed by us in the context of forming our opinion on the financial statements as a whole and not for the purpose of expressing a separate opinion on those significant transactions.



Reporting in accordance with Art. 10 of Regulation (EU) No 537/2014 in connection with the requirements of Art. 59 of the Independent Financial Audit Act

In accordance with the requirements of the Independent Financial Audit Act in connection with Art. 10 of Regulation (EU) No 537/2014, we hereby additionally report the information stated below.

- Ernst & Young Audit OOD was appointed as a statutory auditor of the financial statements of Advance Terrafund ADSIC (the Company) for the year ended 31 December 2018 by the general meeting of shareholders held on 14 May 2018 for a period of one year.
- The audit of the financial statements of the Company for the year ended 31 December 2018 represents second total uninterrupted statutory audit engagement for that entity carried out by us.
- We hereby confirm that the audit opinion expressed by us is consistent with the additional report, provided to Company's audit committee, in compliance with the requirements of Art. 60 of the Independent Financial Audit Act.
- We hereby confirm that we have not provided the prohibited non-audit services referred to in Art. 64 of the Independent Financial Audit Act.
- We hereby confirm that in conducting the audit we have remained independent of the Company.

Audit Firm Ernst & Young Audit OOD:



Daniela Petkova
Legal Representative



Danail Gecev
Registered Auditor in charge of the audit

Sofia, Bulgaria

27 March 2019

ADVANCE TERRAFUND ADSIC
STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31 December 2018

	Notes	2018	2017
		<i>BGN'000</i>	<i>BGN'000</i>
Income			
Rental income from leasing of investment property	5.1	6,408	6,525
Proceeds from sales of investment property	5.1	2,396	20,452
Carrying amount of property sold	6.1,6.2	<u>(2,142)</u>	<u>(14,593)</u>
Net gain from sale of investment property		254	5,859
Net gains from fair value adjustments to investment properties	6.1,6.2	7,005	22,261
Interest income	5.5	767	673
Reversal of impairment loss of advance payments to suppliers	9	-	1,316
Other income	5.2	<u>231</u>	<u>162</u>
Total income		<u>14,665</u>	<u>36,796</u>
Expenses			
Hired service expenses	5.3	(3,707)	(5,128)
Employee benefits expense		(128)	(125)
Impairment loss on receivables	8	(29)	(239)
Finance costs		(3)	(1)
Loss on regulation of agricultural land	6.1	-	(911)
Other expenses	5.4	<u>(21)</u>	<u>(289)</u>
Total expenses		<u>(3,888)</u>	<u>(6,693)</u>
Profit for the year		<u>10,777</u>	<u>30,103</u>
Other comprehensive income for the year		-	-
Total comprehensive income for the year		<u>10,777</u>	<u>30,103</u>
Basic earnings per share (BGN)	15	0.13	0.35

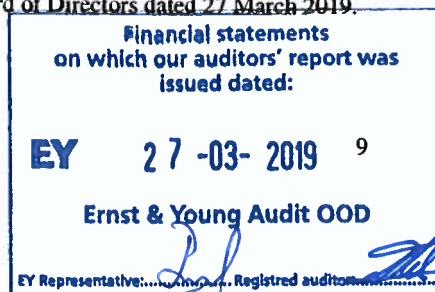
Radoslav Manolov
Executive director



Yoana Georgieva
Preparer

The financial statements were authorised for issue with a resolution of the Board of Directors dated 27 March 2019.
The notes on page 13 to 55 from an integral part of these financial statements.

Translation in English of the official financial statements issued in Bulgarian.

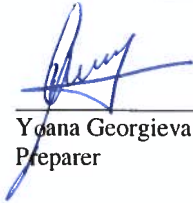


ADVANCE TERRAFUND ADSIC
STATEMENT OF FINANCIAL POSITION
As of 31 December 2018

	Notes	2018 <i>BGN'000</i>	2017 <i>BGN'000</i>
ASSETS			
Non-current assets			
Investment property	6.1	218,820	201,592
Receivables on lease contracts and sales with deferred payment terms	7	9,070	11,833
		<u>227,890</u>	<u>213,425</u>
Current assets			
Receivables on lease contracts and sales with deferred payment terms	7	4,513	3,484
Trade and other receivables	8	2,705	2,834
Advance payments to suppliers	9	7	-
Cash and cash equivalents	10	18,561	29,688
		<u>25,786</u>	<u>36,006</u>
Investment property held for sale	6.2	-	2,446
TOTAL ASSETS		<u>253,676</u>	<u>251,877</u>
EQUITY AND LIABILITIES			
Equity			
Share capital	11.1	85,110	85,110
Share premium	11.2	43,411	43,411
Other reserves	11.3	17	4
Retained earnings		118,363	111,337
Total equity		<u>246,901</u>	<u>239,862</u>
Current liabilities			
Trade and other payables	13	3,019	2,979
Dividends payable	12.2	3,721	9,001
Provisions	12.1	35	35
		<u>6,775</u>	<u>12,015</u>
Total liabilities		<u>6,775</u>	<u>12,015</u>
TOTAL EQUITY AND LIABILITIES		<u>253,676</u>	<u>251,877</u>

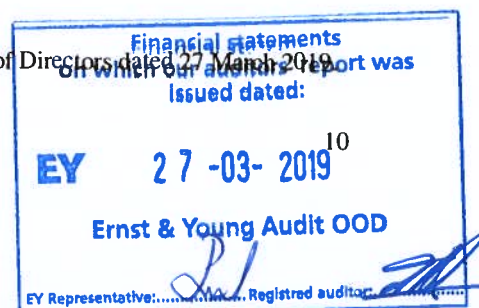

Radoslav Manolov
Executive director




Yoana Georgieva
Preparer

The financial statements were authorised for issue with a resolution of the Board of Directors dated 27 March 2019. The notes on page 13 to 55 form an integral part of these financial statements.

Translation in English of the official financial statements issued in Bulgarian.



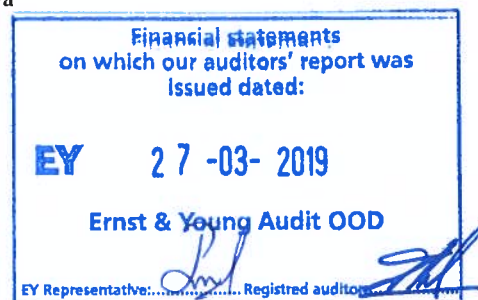
ADVANCE TERRAFUND ADSIC
STATEMENT OF CHANGES IN EQUITY
For the year ended 31 December 2018

	Share capital (Note 11.1) <i>BGN'000</i>	Share premium (Note 11.2) <i>BGN'000</i>	Other reserves (Note 11.3) <i>BGN'000</i>	Retained earnings <i>BGN'000</i>	Total <i>BGN'000</i>
At 1 January 2017	85,110	43,411	3	91,539	220,063
Profit for 2017	-	-	-	30,103	30,103
Other comprehensive income	-	-	-	-	-
Total comprehensive income	-	-	-	30,103	30,103
Transactions with shareholders					
Dividend (Note 12)	-	-	-	(10,305)	(10,305)
Dividends with expired statute of limitations (Note 12.2)	-	-	1	-	1
At 31 December 2017	85,110	43,411	4	111,337	239,862
At 1 January 2018	85,110	43,411	4	111,337	239,862
Profit for 2018	-	-	-	10,777	10,777
Other comprehensive income	-	-	-	-	-
Total comprehensive income	-	-	-	10,777	10,777
Transactions with equity holders					
Dividend (Note 12)	-	-	-	(3,751)	(3,751)
Dividends with expired statute of limitations (Note 12.2)	-	-	13	-	13
At 31 December 2018	85,110	43,411	17	118,363	246,901

Radoslav Manolov
Executive director



Yoana Georgieva
Preparer




The financial statements were authorised for issue with a resolution of the Board of Directors dated 27 March 2019. The notes on page 13 to 55 from an integral part of these financial statements.

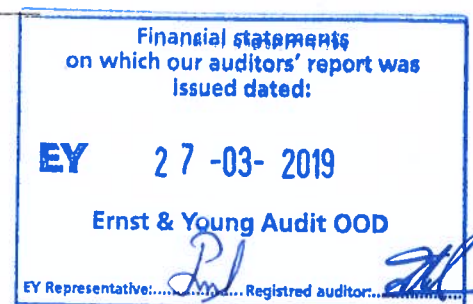
ADVANCE TERRAFUND ADSIC
STATEMENT OF CASH FLOWS
For the year ended 31 December 2018

	Notes	2018	2017
		BGN'000	BGN'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Purchase of investment property		(9,680)	(3,905)
Cash flows related to business counterparties		(485)	883
Cash receipts from rent and sales of investment property, including reimbursement payments		11,380	29,783
Cash payments for salary expenses		(151)	(134)
Interest received on bank accounts and deposits		44	4
Other cash flows generated from operations		(3,214)	(3,911)
Net cash flows from operating activities		(2,106)	22,720
CASH FLOWS FROM FINANCING ACTIVITY			
Cash flows related to payment of dividends	12.2	(9,018)	(14,547)
Other cash flows from financing activities		(3)	(1)
Net cash flows used in financing activities		(9,021)	(14,548)
Changes in cash and cash equivalents		(11,127)	8,172
Cash and cash equivalents at the beginning of the period	10	29,688	21,516
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	10	18,561	29,688


Radoslav Manolov
Executive director




Yoana Georgieva
Preparer



The financial statements were authorised for issue with a resolution of the Board of Directors dated 27 March 2019.
The notes on page 13 to 55 from an integral part of these financial statements.

ADVANCE TERRAFUND ADSIC
NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

1. Corporate information

The financial statements of Advance Terrafund ADSIC for the year ended 31 December 2018 were authorized for issue in accordance with a resolution of the Board of Directors on 27 March 2019.

Advance Terrafund ADSIC (the "Company") is a public joint-stock company which was established at the Constituent Assembly on 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 Company's registered office is: 1 Zlatovruh Str., Sofia. The financial year of the Company ends on 31 December.

The Company's scope of activity is the following: investment of financial resources, raised through public offering of securities, in real estate (real estate securitization) through purchase of right of ownership and other material rights on real estate as well as building constructions and improvements to them, with the purpose of their management, renting, leasing, and/or sale.

The activities of the Company fall under the regulations found in the Act on Special Purpose Investment Companies (SPICA) and in the Public Offering of Securities Act (POSA). In accordance with these two Acts, the Company is subject to regulation by the Financial Supervision Commission (FSC). The Company obtained license № 10-SPIC (Special Purpose Investment Company)/08 December 2005, issued on the basis of Decision № 452-SPIC from 14 July 2005 of the Financial Supervision Commission.

The Company has been constituted for an unlimited duration.

The Company has a one-tier management system. The Board of Directors (BD) of the Company is composed of the following members: Radoslav Iliev Manolov – Executive Director, Borislav Vitanov Petkov – Chairman of the Board of Directors and Nencho Invanov Penev – Member of the Board of Directors. Entrusted with the general management are the members of the Company's Audit Committee and are: Kamen Petrov Kamenov – Chairman of the Audit Committee, Zhechko Dimitrov Petrov – Member of the Audit Committee and Petar Doynov Doynov – Member of the Audit Committee.

Karoll Finance EOOD is the financial services company of Advance Terrafund ADSIC, which as of 31 December 2018, is a shareholder holding 17,65% of the capital of Advance Terrafund ADSIC. It is engaged in providing 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 31 December 2018 the capital of the Company amounts to BGN 85,110,091 (see Note 11.1).

2.1 Basis of preparation

The financial statements have been prepared on a historical cost basis with the exception of investment property, including investment property held for sale, which are measured at fair value.

Based on an assessment of the Company'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 Bulgarian Leva (BGN) and all values are rounded to the nearest thousand (BGN thousand or BGN'000) except when otherwise indicated.

Statement of compliance

The financial statements of Advance Terrafund ADSIC have been prepared in accordance with the International Financial Reporting Standards (IFRS), as adopted by the European Union (IFRS, as adopted by EU). The reporting framework "IFRS, as adopted by the EU" is essentially the defined national basis of accounting "IAS, as adopted by the EU", specified in the Bulgarian Accountancy Act and defined in Paragraph 8 of its Additional provisions.

Translation in English of the official financial statements issued in Bulgarian.

ADVANCE TERRAFUND ADSIC
NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

2.2 Summary of significant accounting policies

a) Foreign currency translation

The financial statements have been prepared in Bulgarian Leva, which is the Company's presentation currency. Transactions in foreign currencies are recorded in Bulgarian Leva at the central exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated into the functional currency at the end of each month by applying the closing exchange rate published by the Bulgarian National Bank for the last working day of the respective month. Any foreign currency differences are recognised in the statement of comprehensive income. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the initial transaction (acquisition).

b) Revenue recognition

Revenue from contracts with customers

The Company is in the business of purchase of right of ownership and other material rights on real estate with the purpose of their management, renting, leasing, and/or sale. Revenue from contracts with customers is recognized when the control of the property is transferred to the customer at the amount that reflects the consideration to which the Company expects to be entitled to in exchange for the investment property. The Company has generally concluded that it is a principal in its revenue arrangements, because it controls the property before transferring it to the client.

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

Sale of investment property

Revenue from sale of investment property is recognized in the statement of comprehensive income at the point in time when the control of the property is transferred to the customer, which is generally the transfer of the legal ownership, except for sales with deferred payment terms. The disclosures of significant accounting judgements, estimates and assumptions in relation to the transfer of control, when selling investment property with deferred payment terms, are disclosed in Note 3.

In determining the transaction price for the sale of investment property, the Company estimates the effects of the variable consideration and the existence of significant financing component.

(i) Variable consideration

If the consideration in a contract includes a variable amount, the Company estimates the amount of consideration to which it is entitled in exchange for the transfer of ownership of the investment property to the customer. The variable consideration is estimated at contract inception and constrained until it is highly probable that a significant revenue reversal (reintegration) in the amount of cumulative revenue recognised will not occur when the associated uncertainty with the variable consideration is subsequently resolved. Some contracts for sale of investment property provide the customer with a right to terminate the contract at any time during the terms of the contract. The rights of termination give rise to variable consideration. The Company also enters into contracts for sale with deferred payment terms with an option for early transfer of the legal ownership for a different consideration.

2.2 Summary of significant accounting policies (continued)

b) Revenue recognition (continued)

Revenue from contracts with customers (continued)

Sale of investment property (continued)

(i) *Variable consideration (continued)*

- Rights of return

The Company has entered into five-year contracts for sale of agricultural land with deferred payment terms. The payment of the consideration is made in annual instalments. The right to use the land is passed to the buyer upon the receipt of a non-returnable advance payment, while the legal transfer of ownership is carried out upon the full payment of the selling price. The buyer is entitled to withdraw from the contract at any time during its agreed period. In such cases the non-refundable advance payment is retained by the Company, while each payment, exceeding this amount, is reimbursed to the buyer.

The Company uses the expected value method to estimate the amount of the contracts that will not be terminated as this method best predicts the amount of variable consideration to which the Company will be entitled. The requirements in IFRS 15 on constraining estimates of variable consideration are also applied in order to determine the amount of variable consideration that can be included in the transaction price. On the basis of the significant accounting judgments made, disclosed in Note 3, the Company considers that its customers are not expected to terminate any contract for sale with deferred payment terms and therefore, as of 31 December 2018, the Company has not recognized a refund liability or a right of return asset.

- Rights for early payment of a contract with different consideration

The Company enters into contracts with deferred payment terms for sale of agricultural land for a period of 5 (five) years. These contracts contain options for early payment between the nineteenth (19th) and forty-eighth (48th) month from the contract inception date (upon the full payment of the non-returnable advance payment) with a different amount of consideration for each option. The transfer of the legal title is made after the option is being exercised. Based on the significant accounting judgments disclosed in Note 3, the Company recognizes revenue on such contracts on the lowest agreed selling price.

(ii) *Significant financing component*

The Company receives short-term advances from its customers on direct sale contracts. Using the practical expedient in IFRS 15, the Company does not adjust the promised amount of consideration for the effects of a significant financing component if it expects, at contract inception, that the period between the transfer of the promised assets to the customer and when the customer pays for those assets will be one year or less.

For sales contracts with deferred payment terms, the Company receives the consideration from its customers in instalments for a period of 5 /five/ years. The transaction price for such contracts is discounted, using the rate that would be applied in a separate financing transaction between the Company and its customers at the contract inception date, in order to reflect the significant financing component. The difference between the gross and present value of the receivable is treated as deferred income but is not recognized as a liability in the statement of financial position. Financial income on sale contracts with deferred payment terms is recognized during the term of the contract.

2.2 Summary of significant accounting policies (continued)

b) Revenue recognition (continued)

Revenue from contracts with customers (continued)

Contract balances

(i) Contract assets

A contract asset is the right to consideration in exchange for the right of ownership of the investment property transferred to the customer. If the Company performs its obligation by transferring assets to a customer before the customer pays consideration or before payment is due, a contract asset is recognised for the earned consideration that is conditional. In case of deferred payment sale of investment property where the payments are made on annual instalments based on a predetermined repayment schedule, the present value of the contractual payments is recognized as a receivable on a contract for sale with deferred payment terms, i.e. as a contract asset.

(ii) Trade receivables

A receivable represents the Company'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). Please, refer to accounting policies of financial assets in section f) Financial instruments – initial recognition and subsequent measurement.

Cost to obtain a contract/ Contract performance costs

The Company is obliged to pay commissions due to its brokers for each contract that they conclude. As the revenue from sale of investment property is recognized at a certain point of time and because the contracts are not of long-term character, the Company has elected to apply the optional practical expedient for costs to obtain a contract which allows the Company to immediately expense sales commissions (presented as hired service expenses).

Revenues from rent and lease of investment property

Rental income from operating leases of property is recognized on a straight-line basis over the whole lease term.

Interest income

Interest income is recognized using the effective interest rate method, i.e. the interest rate that discounts the expected future cash outflows over the expected useful life of the financial instrument, or a shorter period where appropriate, to the carrying amount of the financial asset. Interest income is included in the finance income in the statement of comprehensive income.

Since the Company has adopted IFRS 15 using a modified retrospective method, the comparative information has not been restated and continues to be reported in compliance with IAS 18 and related Interpretations. The differences in accounting for revenue under IFRS 15 and IAS 18 are disclosed in Note 2.3.

c) Expenses

Expenses include costs for hired services, employee benefits expense, impairment loss on receivables, finance and other costs. They are recognized for the period of their occurrence under the accrual basis. Brokerage fees payable under operating lease contracts of investment property are reported as operating expenses for the period in which they arise (upon the conclusion of the operating lease contract).

2.2 Summary of significant accounting policies (continued)

d) Taxes

Corporate income tax

The Company is established pursuant to the provisions of the Act on Special Purpose Investment Companies (SPICA) and is exempt from taxation with Bulgarian corporate income tax in compliance with Article 175 of the Corporate Income Tax Act.

As a result, the Company does not owe and has not accrued current income tax and deferred income tax for the relevant period as reported in the present financial statements.

e) Basic earnings per share

Basic earnings per share is calculated by dividing the profit for the period attributable to the ordinary shareholders of the entity by the weighted average number of ordinary shares outstanding during the period.

The weighted average number of shares is calculated by adjusting the ordinary shares in issue at the beginning of the period by the number of the shares bought back or issued during the period, multiplied by a time-weighting factor, i.e. the number of days that the specific shares are outstanding as a proportion of the total number of days in the period.

f) Financial instruments – initial recognition and subsequent 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 Company's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Company has applied the practical expedient, the Company 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 Company 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 Company'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 Company commits to purchase or sell the asset.

ADVANCE TERRAFUND ADSIC
NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

2.2 Summary of significant accounting policies (continued)

f) Financial instruments – initial recognition and subsequent measurement (continued)

Financial assets (continued)

Subsequent measurement

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

Financial assets carried at amortised cost

The Company 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 Company's financial assets at amortised cost include trade receivables and receivables from sales with deferred payment terms.

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 Company's statement of financial position) when:

- The rights to receive cash flows from the asset have expired; or
- The Company 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 Company has transferred substantially all the risks and rewards of the asset, or (b) the Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Company 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 Company continues to recognise the transferred asset to the extent of its continuing involvement. In that case, the Company 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 Company has retained.

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

2.2 Summary of significant accounting policies (continued)

f) Financial instruments – initial recognition and subsequent measurement (continued)

Financial assets (continued)

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)
- Receivables on lease contracts and sale with deferred payment terms (Note 7)
- Trade receivables (Note 8)

The Company 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 Company 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.

For trade receivables and contract assets, the Company applies a simplified approach in calculating ECLs. Therefore, the Company does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Company 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 Company analyzes separately receivables on lease contracts and sales with deferred payment terms considering the fair value of the contract collateral less the amounts that would be returned to the customer upon eventual termination of the contract. Based on the significant accounting judgments presented in Note 3, as of 31 December 2018 the Company does not recognize a provision for receivables on lease contracts and sales with deferred payment terms.

Financial liabilities

Initial recognition and measurement

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 Company's financial liabilities include trade and other payables and dividends payable.

2.2 Summary of significant accounting policies (continued)

f) Financial instruments – initial recognition and subsequent measurement (continued)

Financial liabilities (continued)

Subsequent measurement

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

Trade and other payables

After initial recognition, trade and other payables are subsequently measured by the Company at amortised cost using the effective interest rate (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 discounts or premiums on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included in finance costs in the statement of comprehensive income.

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 statement of comprehensive income.

The Company applies IFRS 9 the requirements of IFRS 9 in relation to the classification and measurement of financial instruments retrospectively, but does not restate the comparative information, which continues to be reported under IAS 39. Differences arising from the adoption of IFRS 9 and IAS 39 in relation to the classification and measurement of financial instruments are disclosed in Note 2.3.

g) 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.

h) Fair value measurement

The Company measures its non-financial assets such as investment property and investment property held for sale at fair value at the reporting date. The fair values of financial assets measured at amortized cost are disclosed in Note 17.

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 Company.

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.

2.2 Summary of significant accounting policies (continued)

h) Fair value measurement (continued)

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

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

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

For assets and liabilities that are recognized in the financial statements on a recurring basis, the Company determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period and determines whether it is necessary to make transfers from one level into another.

The management of the Company determines the policies and procedures applied to fair value measurement made on a recurring basis as well as to fair value measurement made on a non-recurring basis for investment property and investment property held for sale.

Under normal conditions, the fair value measurement of investment property and investment property held for sale is subject to valuation made by external independent valuers. External valuers are selected on the basis of their professional experience, qualities and reputation. After discussions with the external valuations experts, the management decides which valuation techniques and inputs are most relevant to be used on a case-by-case basis.

At each reporting date, the management analyzes the changes in the values of the assets that are subject to re-measurement in accordance with the accounting policies applied by the Company. This includes reviewing the key inputs used in the last measurement and comparing them with the relevant historical information involving contracts and other appropriate documentation. In addition, the management, together with the external valuations experts, compares the changes in the fair value of each asset or liability with the appropriate external sources to assess whether the changes are reasonable.

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

i) Share capital

The share capital of the Company is in the form of ordinary registered dematerialized shares. The excess of the share issue proceeds received over the par value of the shares is reported as a share premium.

Expenses that are directly attributable to the issuance of new shares are recognized in equity as a reduction in the proceeds of the issuance of shares thus eliminating the effect of taxes on income.

A liability for cash distributions to shareholders is recognized when the distribution is authorized or required by law and is no longer at the discretion of the Company. The corresponding amount is debited directly to equity.

2.2 Summary of significant accounting policies (continued)

j) Investment property

Investment property is property held to earn rentals or for capital appreciation or both. Investment property is initially measured at cost, including transaction costs. 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.

Investment property is re-measured at fair value which reflects the actual market state and circumstance as of the balance sheet date. Gains or losses arising from changes in the fair value of investment property must be included in net profit or loss for the period in which it arises.

The investment property is derecognized upon its sale or permanent withdrawal from use in case that no future economic benefits are expected from its disposal. Gains or losses arising from the permanent withdrawal from use of the investment property or its disposal are included in the statement of comprehensive income in the period of the withdrawal or disposal.

The investment properties are transferred to investment properties held for sale when there is a signed preliminary sale contract and when part of the total amount of the advance payment is paid by the customer.

k) Investment property held for sale

The Company classifies investment property 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 property must be available for immediate sale in its present condition and the sale is likely to be implemented within 12 months. Investment property held for sale is measured at fair value.

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 Company's control and there is sufficient evidence that the entity remains committed to its plan to sell the asset.

l) Leases

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

Company as a lessor

Finance lease

For a property sale that results in a finance lease, the present value of lease payments is recognized as lease payment receivable. The difference between the gross investment in the lease and the present value of the lease payments receivable is treated as future finance income but it is not recognized as liability in the statement of financial position. Financial income is allocated to each period during the lease term so as to produce a constant periodic rate of interest as a percentage on the remaining balance of the principal.

Income from finance lease of assets is recognized in the profit and loss for the respective period.

Operating lease

A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership of the leased asset.

2.2 Summary of significant accounting policies (continued)

m) Operating segments

An operating segment is a component of the Company:

- 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 same Company);
- b) whose operating results are reviewed by the management of the Company, the chief operating decision maker, to make decisions about resources to be allocated to the segment and assess its performance; and
- c) for which discrete information is available.

Two or more operating segments may be aggregated into a single operating segment, if the segments have similar economic characteristics and are similar in various prescribed respects:

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

A single external customer from which the Company receives more than 10% of its revenue is considered to be a separate customer.

As of 31 December 2018 and 31 December 2017 the Company does not have separate reportable operating segments. Additional information about the revenue from sales to external customers is presented in Note 5.1.

n) Cash and cash equivalents

Cash and cash equivalents in the statement of financial position comprise cash on hand and in current accounts and short-term deposits with an original maturity of three months or less.

The management of the Company considers that deposits with maturity of 3 months or less meet the criteria for cash equivalents, as they are easily convertible into cash without any material loss of value. These deposits are convertible into cash without a written notice and without the Company being charged early termination fees.

For the purposes of the statement of cash flows, cash and cash equivalents are defined above. The Company recognizes investment property sales and receivables from sales and rentals of investment property as part of the cash flows from operating activities since they represent the core activity of the Company.

o) Provisions

General

Provisions are recognised when the Company 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 Company 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 statement of comprehensive income, 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.

2.2 Summary of significant accounting policies (continued)

p) Dividends payable

In compliance with the requirements of the Special Purpose Investment Companies Act (SPICA) the Company is obliged to distribute as dividend not less than 90% of the profit (book profit) for the financial year, adjusted with the effect from subsequent valuations of investment property and the effect from all transactions with investment property, carried out throughout the year. The required minimum amount of dividends payable for the current reporting period in accordance with SPICA is reported in retained earnings decrease for the current period while the difference between the approved dividend payments by the shareholders and the minimum required amount is reported for the next accounting period in retained earnings decrease after a decision taken at the General Assembly of the shareholders.

The dividends shall be paid within 12 months from the end of the respective financial year.

2.3 Changes in accounting policies and disclosures

New and amended standards and interpretations

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

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

IFRS 9 Financial Instruments: Classification and Measurement

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

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

The effect from the adoption of IFRS 9 as at 1 January 2018 does not result in adjustments to be reported retained earnings as at 1 January 2018.

Classification and measurement

Under IFRS 9, debt instruments are subsequently measured at fair value through profit or loss, amortised cost, or fair value through OCI. The classification is based on two criteria: the Company's business model for managing the assets; and whether the instruments' contractual cash flows represent 'solely payments of principal and interest' on the principal amount outstanding.

The assessment of the Company's business model was made as of the date of initial application, 1 January 2018. The assessment of whether contractual cash flows on debt instruments are solely comprised of principal and interest was made based on the facts and circumstances as at the initial recognition of the assets.

The classification and measurement requirements of IFRS 9 did not have a significant impact to the Company. The following are the changes in the classification of the Company's financial assets:

- *Trade receivables and Other non-current receivables* (i.e., *trade receivables and other receivables including receivables on lease contracts and sales with deferred payment terms*) classified as *Trade and other receivables* as at 31 December 2017 are held to collect contractual cash flows and give rise to cash flows representing solely payments of principal and interest. These are classified and measured as *Debt instruments at amortised cost* beginning 1 January 2018.

The Company has not designated any financial liabilities as at fair value through profit or loss. There are no changes in classification and measurement for the Company's financial liabilities.

2.3 Changes in accounting policies and disclosures (continued)

New and amended standards and interpretations (continued)

IFRS 9 *Financial Instruments: Classification and Measurement* (continued)

Classification and measurement (continued)

In summary, upon the adoption of IFRS 9, the Company had the following required reclassifications as at 1 January 2018.

IAS 39 measurement category	IFRS 9 measurement category		
	Fair value through profit and loss	Amortised cost	Fair value through OCI
	BGN '000	BGN '000	BGN '000
<i>Loans and receivables</i>			
Trade and other receivables	-	2,834	-
Receivables on lease contracts and sales with deferred payment terms	-	15,317	-
<i>Available for sale</i>	-	-	-
	-	18,151	-

Impairment

The adoption of IFRS 9 has fundamentally changed the Company's accounting for impairment losses for financial assets by replacing IAS 39's incurred loss approach with a forward-looking expected credit loss (ECL) approach. IFRS 9 requires the Company to recognise an allowance for ECLs for all debt instruments not held at fair value through profit or loss and contract assets.

Up to 1 January 2018, the Company applied the requirements of IAS 39 and considered a financial asset or a group of financial assets to be impaired when there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset ("loss event") and this loss event has an impact on the expected future cash flows from the financial asset or group of financial assets that can be measured reliably. The comparative information for 2017 in these financial statements is presented in accordance with IAS 39 because a modified retrospective approach is applied.

After an analysis made for the adoption of IFRS 9, as at 1 January 2018 the Company has not recognized additional impairment of financial assets carried at amortized cost.

IFRS 15 Revenue from Contracts with Customers

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

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

2.3 Changes in accounting policies and disclosures (continued)

New and amended standards and interpretations (continued)

IFRS 15 Revenue from Contracts with Customers (continued)

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

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

The effect of the adoption of IFRS 15 as at 1 January 2018 does not result in adjustments as of 1 January 2018 or changes in the statement of financial position as at 31 December 2018 and the income statement for the year ended 31 December 2018.

Up to 1 January 2018, the Company has applied the requirements of IAS 18 when accounting for revenue from sales of investment property, including sales of investment properties under deferred payment terms. Revenue from the sale of investment property prior to 1 January 2018 is recognized when the Company transfers the substantial part of the risks and rewards related to the ownership over the investment property to the customers and does not retain effective control over it or when it is certain that the Company will receive economic benefits associated with the transaction.

Up to 1 January 2018, the present value of the contract payments, related to the deferred payment sales of investment property, is recognized as a receivable from a deferred payment. The difference between the gross and present value of the receivable is treated as a deferred income but is not recognized as a liability in the statement of financial position. According to the analysis made, the Company has determined that the initial application of IFRS 15 as at 1 January 2018 does not require a change in determining the point in time of recognition and the amount of the revenue from the sale of investment property, including sales of investment property with deferred payment terms.

IFRIC 22 Foreign Currency Transactions and Advance Consideration

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

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

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

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

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

2.3 Changes in accounting policies and disclosures (continued)

New and amended standards and interpretations (continued)

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

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

Annual Improvements to IFRSs 2014-2016 Cycle

Summary of amendments and related standards are provided below:

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

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

Reclassification

In order to achieve comparability with the current presentation, the Company has made some reclassifications of the comparative information presented in the statement of cash flows. Cash flows related to the withholding tax over the dividends payable amounting to BGN 191 thousand are presented as part of the cash flows used in financial activities, while in the financial statements for 2017 they were presented as part of the cash flows from operating activities.

3. Significant accounting judgments, estimates, and assumptions

The preparation of the Company's financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of the reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods.

Judgments

In the process of applying the Company's accounting policies, management has made the following judgments, which have the most significant effect on the amounts recognised in the financial statements:

Transfers to investment property held for sale

In accordance with its investment objectives, the Company classifies the acquired property as investment property at the time of their initial recognition. Subsequently, the management makes judgments regarding the transfers from investment property to investment property held for sale when their carrying amount would be recovered through sale rather than through continuing use of the asset. The existence of signed preliminary sale agreements and the receipt of earnest payments by customers under deferred payment contracts, finance leases or direct sales as of the end of the reporting period, are considered to be evidence for the change in the intentions of the management. Thus, the Company presents the respective property as property held for sale at the end of the reporting period. Upon termination of the preliminary contract without the sale of the investment property subject to the contract being realized, the Company reclassifies the property as an investment property at its fair value. Significant accounting policies for transfers to investment property are presented in Note 2.2. (k).

Revenue from contracts with customers

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

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

Judgments (continued)

Revenue from contracts with customers (continued)

- Determining the timing when the control over the property is transferred to the customer under contracts with deferred payment terms

When entering into sales agreements requiring non-returnable advance payments by the buyer and deferred transfer of the legal title, the Company analyzes whether the material risks and rewards of ownership of the assets are transferred to the buyer at the time of the contract inception (and the transfer of the physical possession of the asset) or at a later point in time coincident with the transfer of the legal title. These type of contracts are agreed for a period of 5 /five/ years while the payments are made in equal annual instalments. The right to use the land is passed to the buyer upon the receipt of non-returnable advance payment under the terms of the signed contract, while the transfer of the legal title passes to the buyer upon the full payment of the selling price. The buyer is entitled to withdraw from the contract at any time during its agreed period. In this event, the Company retains the non-refundable advance payment made, while each payment, other than the non-returnable amount, is reimbursed to the buyer.

In making its judgment the Company has analyzed 1) the timing when the risks and rewards of the use of the asset have been transferred to the buyer, which the Company has estimated to occur at the moment the legal rights to use the property are granted to the buyer; 2) the existence of a payment entitlement for the asset as at the time of the transfer of physical possession to the customer – the Company has come to the conclusion that the existence of a binding agreement and a significant non-refundable advance payment supports the judgment that the customer has a significant economic incentive to pay the negotiated transaction price; 3) the Company has estimated that the retention of the legal title to the property is made with the aim to ensure the reimbursement of the agreed consideration and was therefore not an indication of the timing of the transfer of control over the property. Due to these factors, the Company has concluded that the timing of transfer of control under deferred payment transactions coincides with the timing of the transfer of the physical possession of the asset and the payment of the non-refundable amount by the customer.

- Determining the estimate of the constraint on the variable consideration up to the amount for which it is highly probable that a significant reversal of the revenue recognized will not occur in the future.

As described above, sales of investment property with deferred payment terms include a right of return, which gives rise to variable consideration. The Company also enters into contracts with deferred payment terms that contain several options for early transfer of the ownership at a different (reduced) amount of the consideration respectively.

In estimating the variable consideration, the Company is required to use either the expected value method or the most likely amount method based on which better predicts the amount of consideration to which it will be entitled. The Company has determined that the expected value method is the appropriate method to use in estimating the variable consideration under the sale contracts of investment property.

The Company has determined that the estimates of variable consideration in relation to the right of return under sale contracts are not constrained based on its historical experience, business forecast and the current economic conditions. In order to reach this conclusion, the Company has analyzed various factors, including but not limited to: the amount of the non-refundable advance payment against the total amount of the transaction price, the expected fair value of the assets subject to such type of transactions against the recoverable amount of the transaction price, the historical experience relating to exercised options for termination by the customers, and has estimated that it is reasonably certain that the Company will obtain economic benefits from the transaction, and the option to terminate the transaction and return the property will not be exercised.

The Company updates its estimates of expected returns / terminated sale contracts with deferred payment terms at the end of each reporting period based on indicators related to the changes in the market value of agricultural land, historical experience and other economic factors. As of 31 December 2018 and as of 1 January 2018, the Company has estimated that the probability of a significant reversal in the amount of revenue recognized in relation to sale contracts with deferred payment terms is insignificant. Accordingly, the Company does not recognize any refund liabilities for expected returns, as well as assets for rights of return.

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

Judgment (continued)

Revenue from contracts with customers (continued)

With regards to sale contracts with deferred payment terms containing several options for earlier payment at a reduced price, the Company has no historical experience and such an experience would not be relevant in making a reasonable judgment in relation to the exercise of the option for early payment at a lower price. In this case, the Company uses the constraint on variable consideration and recognizes revenue up to the amount of the lowest agreed price. In the event that the option is not exercised, the Company recognizes revenue from the sale of investment property with regards to the next largest amount of the agreed reduced price.

- Consideration of significant financing component in a contract

Taking into consideration the length of time between the customer's payment and the transfer of the control over the asset, as well as the prevailing interest rates in the market, the Company has come to the conclusion that, for contracts with deferred payment terms where the client pays the agreed consideration for a period of five years through equal annual instalments, there is a significant financing component.

In determining the interest rate to be applied to the amount of consideration, the Company concluded that 5 / five / per cent is appropriate because this is commensurate with the rate that would be applied in a separate financing transaction between the Company and its customer at contract inception. The difference between the gross and present value of the receivable is treated as a deferred income but is not recognized as a liability in the statement of financial position. Financial income from deferred payment sale contracts is recognized for the term of the contract.

Dividends payable calculation

In compliance with the requirements of the Act on Special Purpose Investment Companies, the Company is obliged to distribute as dividend not less than 90% of the profit (book profit) for the financial year, adjusted with the effect from all investment property transactions carried out throughout the year, including the gains/losses on subsequent valuations of investment property. Additional information about the recognized dividends payable as of 31 December 2018 is presented in Note 12.

The Company as a lessor

The Company has entered into one-year agricultural land leases with a renewal option which allows the period to be extended for another year. The management considers that the Company retains substantially all the risks and rewards of ownership of the leased asset that is why such leases are classified as operating leases.

The Company has entered into five-year agricultural land leases, which come into force after the payment of an earnest money deposit. The lessor conveys the lessee the right to use the land at the time of the conclusion of the contract and the title is passed by the end of the lease term unless the lessee wishes to exercise the option to purchase the property earlier by paying the outstanding amount under the contract. Upon termination of the contract by the lessee, all installments made by the time of termination are not reimbursed. The Management believes that under such contracts the Company has transferred all material risks and rewards of ownership of such property and therefore the contracts are treated as finance leases.

The significant accounting policies to apply in relation to leases are presented in Note 2.2 (1).

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 amounts of assets within the next financial year are discussed below:

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

Estimates and assumptions (continued)

Fair value of investment property

The investment property of the Company is measured at fair value using the market approach. The valuation is made by an independent licensed valuer authorised by the Bulgarian Ministry of Agriculture and Food. For 2018 the valuation is carried out without any official representative agricultural market information, including the price levels of agricultural land, rent levels, levels of crop yields by regions, etc. Additional information is provided in Note 6. As of 31 December 2018 the valuation is fully based on the market analogy method (comparative method). In order to determine the fair value of investment property as of 31 December 2016, another method is used in accordance with *Ordinance on the conditions and procedures for establishing current market prices of agricultural lands* – a method for determining the current market prices. In the valuation as of 31 December 2017 and as of 31 December 2018, the regulatory approach is not used due to the fact that the *Ordinance on determining land prices* has not been updated for a long time, and the resulting values could lead to significant misstatements in the fair value measurement of the investment property. In 2017 the Company recognized a change in the fair value measurement valuation technique as a change in an accounting estimate and applies it prospectively.

Provision for expected credit losses of trade receivables and receivables from sales under lease and sale with deferred payment terms

The Company uses a provision matrix to calculate ECLs for trade receivables. The provision matrix is initially based on the Company's historical observed default rates. The Company calibrates 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 agricultural 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 forecasted economic conditions. The Company'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 Company's trade receivables is disclosed in Note 8 and Note 16.

The Company analyzes separately receivables on lease contracts and sales with deferred payment terms considering the fair value of the contract collateral less the amounts that would be reimbursed to the customer upon eventual termination of the contract. As at 31 December 2018, the fair value of the collateral under the contracts less the amounts that would be reimbursed to the customer upon termination of the contract exceeds the receivables on lease contracts and sales with deferred payment terms included in the statement of financial position. Accordingly, the Company did not recognize a provision for ECLs for receivables on lease contracts and sales with deferred payment terms. Additional information on receivables from sales under lease and deferred payment terms contracts is presented in Note 7.

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 Company's financial statements are listed below. This listing is of standards and interpretations issued, which the Company reasonably expects to have an impact on disclosures, financial position or performance when applied at a future date. The Company intends to adopt those standards when they become effective.

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

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, which is similar to the accounting treatment of finance lease in accordance with IAS 17. The Standard provides two exemptions from recognition of lease contracts – leases of low value assets (e.g. laptop computers) and short-term leases (e.g. lease with a lease term of 12 months or less). At the commencement date of the lease the lessee recognizes a liability to make lease payments (i.e. the lease liability) and an asset representing the right to use the underlying asset (i.e. the right-of-use asset). The lessees will be required to recognize separately interest expenses on the lease liability and depreciation expense on the right-of-use asset.

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

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

IFRS 16, which is effective for annual periods beginning on or after 1 January 2019, requires lessees and lessors to provide more extensive disclosures from the ones required by IAS 17. It is not expected that these amendments would impact the financial position or performance of the Company.

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 Company.

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

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

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

IFRIC 23 Uncertainty over Income Tax Treatments

The Interpretation is effective for annual periods beginning on or after 1 January 2019 with earlier application permitted. The Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12. The Interpretation provides guidance on considering uncertain tax treatments separately or together, examination by tax authorities, the appropriate method to reflect uncertainty and accounting for changes in facts and circumstances. It is not applicable for the Company.

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

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

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

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

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

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

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

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

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

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

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

The Conceptual Framework for Financial Reporting

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

Annual Improvements to IFRSs 2015-2017 Cycle

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

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

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

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5. Income and expenses

5.1 Income from sales to external customers

	<u>2018</u>	<u>2017</u>
	<i>BGN'000</i>	<i>BGN'000</i>
Sales of property with deferred payment terms	2,150	8,249
Direct sales of property	240	11,938
Sales of property under finance lease	6	265
	<u>2,396</u>	<u>20,452</u>

Revenue from contracts with customers as defined in IFRS 15 *Revenue from contracts with customers* includes revenue from sales of property with deferred payment terms and revenue from direct sales of property.

a) Geographical area information

Revenue from sales of investment property and rental income are from external customer based in Bulgaria.

b) Information on key customers

	<u>Type of revenue</u>	<u>2018</u>	<u>2017</u>
		<i>BGN'000</i>	<i>BGN'000</i>
Customer 1	Sales	1,197	-
Customer 2	Sales	510	-
Customer 3	Sales	-	5,312
Customer 4	Sales	-	2,900
Customer 5	Sales	-	2,524
Customer 6	Rent	955	1,123
Customer 7	Rent	793	838

Key customer information includes revenue from sales of investment property and rental income from these customers, which represent 10% or more of the revenue from sales of investment property and from rental income for the respective reporting periods. All entities under common control are considered as one customer for the purposes of this disclosure.

5.2 Other revenue

	<u>2018</u>	<u>2017</u>
	<i>BGN'000</i>	<i>BGN'000</i>
Income from an advance payment under a terminated preliminary contract (Note 6.2)	192	-
Income from statutory interest charged for late payment of trade receivables	17	8
Income from impaired in prior periods receivables (Note 8)	16	8
Compensation for lost ownership of property	5	14
Income from legally established ownership to property	1	6
Compensation on advance payment for termination of a contract with a supplier	-	100
Decrease in litigation provisions (Note 12.1)	-	20
Other	-	6
	<u>231</u>	<u>162</u>

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5. Income and expenses (continued)

5.3 Expenses on hired services

	<u>2018</u> <i>BGN'000</i>	<u>2017</u> <i>BGN'000</i>
Consulting service expenses	3,346	4,164
Brokers' commissions	244	804
Professional insurance expense	45	49
Advertisement expenses	24	23
Annual fees	21	22
Property management costs	9	36
Other expenses and fees	18	30
	<u><u>3,707</u></u>	<u><u>5,128</u></u>

More detailed information about the consulting services expenses is presented below:

	<u>2018</u> <i>BGN'000</i>	<u>2017</u> <i>BGN'000</i>
Fees due to the Servicing company (Note 14.1)	3,226	4,075
Audit fees	50	50
Valuation fees	20	15
Other consulting services	50	24
Total	<u><u>3,346</u></u>	<u><u>4,164</u></u>

For 2018 the expenses for services provided by the registered auditor of the Company are only related to an independent audit – BGN 50 thousand (2017: BGN 50 thousand).

5.4 Other expenses

	<u>2018</u> <i>BGN'000</i>	<u>2017</u> <i>BGN'000</i>
Expenses for participation in trainings and seminars	9	5
Legal service fees	8	15
Derecognition of expenses for terminated contracts for land re-parcelling services (Note 6.1)	-	206
Write-off of property due to lost ownership rights through legal proceedings	-	60
Other	4	3
	<u><u>21</u></u>	<u><u>289</u></u>

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5. Income and expenses (continued)

5.5 Finance income

	<u>2018</u>	<u>2017</u>
	<i>BGN'000</i>	<i>BGN'000</i>
Interest income on sales with deferred payment terms	641	533
Interest income on lease sale contracts	92	121
Interest income from bank accounts and deposits	<u>34</u>	<u>19</u>
	<u>767</u>	<u>673</u>

6. Property

6.1 Investment property

	Agricultural land	Property within urbanized territories	Other	Total
	<i>BGN'000</i>	<i>BGN'000</i>	<i>BGN'000</i>	<i>BGN'000</i>
Level within the fair value hierarchy	Level 3	Level 3	Level 3	Level 3
Fair value				
On 1 January 2017	169,947	15,632	206	185,785
Additions during the year	3,734	-	-	3,734
Disposals during the year	(7,168)	(911)	(206)	(8,285)
Classified as assets held for sale (Note 6.2)	<u>(1,411)</u>	<u>-</u>	<u>-</u>	<u>(1,411)</u>
On 31 December 2017	<u>165,102</u>	<u>14,721</u>	<u>-</u>	<u>179,823</u>
Subsequent fair value measurement	21,261	508	-	21,769
On 31 December 2017	<u>186,363</u>	<u>15,229</u>	<u>-</u>	<u>201,592</u>
Fair value				
On 1 January 2018	186,363	15,229	-	201,592
Additions during the year	9,919	-	-	9,919
Disposals during the year	(520)	-	-	(520)
Transfer from property held for sale to investment property (Note 6.2)	824	-	-	824
On 31 December 2018	<u>196,586</u>	<u>15,229</u>	<u>-</u>	<u>211,815</u>
Subsequent fair value measurement	8,068	(1,063)	-	7,005
On 31 December 2018	<u>204,654</u>	<u>14,166</u>	<u>-</u>	<u>218,820</u>

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6. Property (continued)

6.1 Investment property (continued)

The properties within the urbanized territories include 62,176 sq.m. regulated properties with carrying amount as at 31 December 2018 of BGN 11,099 thousand (2017: 62,176 sq.m. with carrying amount of BGN 11,679 thousand).

Transfer to investment property

In accordance with the disclosure made in Note 6.2, in December 2018, the Company terminated the preliminary finance lease contract and transferred the property subject to the contract with a carrying amount of BGN 824 thousand from property held for sale to investment property.

Transfer to investment property held for sale

As of 31 December 2018 the Company has not signed any preliminary agreements for the sale of property.

As of 31 December 2017 the signed preliminary agreements are for the sale of 2,194 decares of agricultural land, which is classified as investment property held for sale.

Fair value measurement

As of 31 December 2018 and 31 December 2017 a valuation of the Company's investment property is made by an independent licensed valuer who holds the appropriate professional qualification and uses the latest observations on the locations of the investment property. The current use of the Company's investment property is considered to be the highest and best use. For 2018 the valuation is carried out without any official representative agricultural market information, including the price levels of agricultural land, rent levels, levels of crop yields by regions, etc.

As of 31 December 2018 and 31 December 2017 the valuation of the Company's investment property is based on the fair market value model. Fair market value (FMV) is the most likely value at which an asset can be sold on a competitive market and in compliance with all the conditions for realizing a fair and transparent sale, namely: the buyer and the seller are willing and unpressured to trade and have reasonable knowledge of the respective asset; both sides are driven by their own interests; they act independently of any external influence and are aware that the realization period of the transaction should be of reasonable length.

As of 31 December 2018 the valuation is fully based on the market comparables method (comparative method). By means of this method, the value of a given property is determined by comparing the property's main characteristics to identical or comparable characteristics of another property of the same type if there is available information regarding the property's "ask" and selling prices. Moreover, if the transactions, for which there is available information, are carried out immediately before the time of valuation, the market value of the property will be measured more reliably.

The key assumptions and unobservable inputs used in the fair value measurement of investment property include the average values of actual "ask" or selling prices of comparable agricultural property by district, ranging from BGN 676 per decare to BGN 1,423 per decare, depending on the location and size of the observed analogues. For property acquired after 1 October 2018 the fair value of the investment property is assumed to be the purchase price.

The changes in the fair values of investment property are recognized in the statement of comprehensive income as profit or loss for the year.

Sensitivity analysis

Significant increases/decreases in agricultural land market prices would result in substantially higher/(lower) fair values of investment property.

Geographical area information

The Company's investment property is located on the territory of the Republic of Bulgaria.

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6. Property (continued)

6.1 Investment property (continued)

Other disclosures

As at the end of 2018 and 2017 respectively, the Company has concluded rent and lease contracts for approximately 161,797 decares and 159,089 decares of agricultural land. The realized income from rent and lease for 2018 and 2017 amounting to BGN 6,408 thousand and BGN 6,525 thousand respectively, is reported in the statement of comprehensive income.

For 2018 and 2017 the Company realized the following sales:

- sales under contracts with deferred payment terms of 1,963 decares agricultural land (2017: 7,160 decares agricultural land)
- direct sales of 190 decares agricultural land (2017: 9,917 decares agricultural land)
- in 2018 the Company did not realize any sales under finance lease contracts (2017: 160 decares agricultural land)

In compliance with the provisions of the Spatial Planning Act (SPA), for some of the Company's property located within the territory of the city of Sofia, in 2017 there are Ordinances issued by Sofia Municipality, changing the status of the agricultural land to a land for construction purposes. Because of this change, from the agricultural land owned to date, new regulated land plots (RLP) have been formed and their total area has been reduced by 5,869 sq.m. As of the 31 of December 2017, this requires the reduced 5,869 sq.m. to be written off from the total area of the regulated land plots with carrying amount of BGN 911 thousand.

6.2 Investment property held for sale

	2018	2017
	<i>BGN'000</i>	<i>BGN'000</i>
Balance at 1 January	2,446	8,028
Property sold during the year	(1,622)	(7,485)
Transfer from property held for sale to investment property (Note 6.1)	(824)	-
Classified as property held for sale (Note 6.1)	-	1,411
Subsequent fair value measurement	-	492
Balance at 31 December	-	2,446

In December 2018, the Company terminated a preliminary finance lease contract due to the failure of the lessee to pay the full amount of the initial installment, which represents an advance payment guaranteeing the completion of the contract. As a result, the property subject to the contract with a carrying amount of BGN 824 thousand is transferred from property held for sale to investment property. The amount of BGN 192 thousand received under the contract before its termination was retained by the Company and recognized in the statement of comprehensive income (Note 5.2).

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6. Property (continued)

6.3 Operating lease commitments – the Company as a lessor

The Company has entered into one-year agricultural land leases with a renewal option which allows the period to be extended for another year. In previous reporting periods, the Company concluded land lease contracts for a period of 4 to 5 years. As of 31 December the future minimum lease payments are presented below:

	<u>2018</u>	<u>2017</u>
	<i>BGN'000</i>	<i>BGN'000</i>
Up to 1 year *	2,908	3,878
From 1 to 5 years*	41	661
Over 5 years	-	-
	<u>2,949</u>	<u>4,539</u>

*The lease payments are stated in respect to the contracts for which the Company did not receive advance payments as at 31 December 2018 and represent the receivables due for subsequent accounting periods less the advance payments received at the end of the reporting period.

7. Receivables on lease contracts and sales with deferred payment terms

7.1 Receivables on sales of property under lease contracts

As of 31 December 2018

	<u>Up to 1 year</u>	<u>From 1 year to 5</u>	<u>Total</u>
	<i>BGN'000</i>	<i>BGN'000</i>	<i>BGN'000</i>
Gross investments in lease contracts	648	927	1,575
Unrealised finance income	(61)	(40)	(101)
Carrying amount	<u>587</u>	<u>887</u>	<u>1,474</u>

As of 31 December 2017

	<u>Up to 1 year</u>	<u>From 1 year to 5</u>	<u>Total</u>
	<i>BGN'000</i>	<i>BGN'000</i>	<i>BGN'000</i>
Gross investments in lease contracts	669	1,636	2,305
Unrealised finance income	(93)	(106)	(199)
Carrying amount	<u>576</u>	<u>1,530</u>	<u>2,106</u>

Receivables from sales under finance lease contracts are fully invoiced.

As of 31 December 2018 the Company has finance lease contracts for 2,896 decares of agricultural land (31 December 2017: 2,980 decares).

In 2018 one lessee repaid the entire amount due under a finance lease contract concluded in 2016 and gained the legal title of a total of 84 decares of agricultural land (2017: 618 decares agricultural land).

7. Receivables on lease contracts and sales with deferred payment terms (continued)

7.2 Receivables on sales with deferred payment terms

As of 31 December 2018

	Up to 1 year	From 1 year to 5 years	Total
	<i>BGN'000</i>	<i>BGN'000</i>	<i>BGN'000</i>
Gross receivables on sales with deferred payment terms	4,379	8,564	12,943
Unrealised finance income	(453)	(381)	(834)
Carrying amount	<u>3,926</u>	<u>8,183</u>	<u>12,109</u>

As of 31 December 2017

	Up to 1 year	From 1 year to 5 years	Total
	<i>BGN'000</i>	<i>BGN'000</i>	<i>BGN'000</i>
Gross receivables on sales with deferred payment terms	3,512	11,066	14,578
Unrealised finance income	(604)	(763)	(1,367)
Carrying amount	<u>2,908</u>	<u>10,303</u>	<u>13,211</u>

Receivables on sales with deferred payment terms that represent assets under contracts with clients within the meaning of IFRS 15 *Revenue from contracts with customers* are not invoiced. An invoice is issued upon receipt of a contract instalment.

As of 31 December 2018 the Company has deferred payment sales contracts concluded for the sale of 18,623 decares of agricultural land (2017: 17,148 decares).

For part of the contracts for deferred payment sales concluded in 2017, the customers have the option for earlier transfer of the legal title. This may happen between the 19th and 48th month of the contract by paying the full amount of a reduced purchase price.

In 2018 one customer paid the entire amount due under a contract for deferred payment sale concluded in 2017 and used the option for early transfer the legal title for a total of 488 decares of agricultural land.

8. Trade and other receivables

	2018	2017
	<i>BGN'000</i>	<i>BGN'000</i>
Rent receivables, gross	2,632	2,765
<i>Impairment</i>	(529)	(722)
Rent receivables, net of impairment	2,103	2,043
Advance payments to brokers and counterparties	530	716
Court receivables	28	30
Interest receivables from deposits in BGN	6	15
Other	38	30
	<u>2,705</u>	<u>2,834</u>

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8. Trade and other receivables (continued)

The amount of past-due and impaired rent receivables is BGN 529 thousand and BGN 722 thousand as at 31 December 2018 and 31 December 2017, respectively.

Movements in the provision for the impairment of rent receivables for 2018 and for 2017 are as follows:

	<u>2018</u>	<u>2017</u>
	<i>BGN'000</i>	<i>BGN'000</i>
Balance at 1 January	722	636
Provision accrued	29	239
Provision reversed (Note 5.2)	(16)	(8)
Provision written off against carrying amount of receivables	<u>(206)</u>	<u>(145)</u>
Balance at 31 December	<u>529</u>	<u>722</u>

As of 31 December 2018 the Company has collected 41% of its receivables under the rent contracts concluded for the current 2018-2019 financial year (31 December 2017: 38% of the receivables under rent contracts for the 2017-2018 financial year).

The ageing analysis of trade receivables that were not impaired at 31 December is illustrated in the table below:

	Total	Neither past due nor impaired	Past due but not impaired				>180 days
			< 30 days	30-60 days	60-90 days	90-180 days	
	<i>BGN'000</i>	<i>BGN'000</i>	<i>BGN'000</i>	<i>BGN'000</i>	<i>BGN'000</i>	<i>BGN'000</i>	<i>BGN'000</i>
2018	2,103	914	-	-	-	1,189	-
2017	2,043	1,014	-	-	-	1,020	9

9. Advance payments to suppliers

As of 31 December 2018, Advance Terrafund ADSIC has concluded two preliminary contracts for the purchase of 74 decares of agricultural land. Subject to the terms and conditions of these preliminary contracts, the Company has made an advance payment of BGN 7 thousand.

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

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

As of 31 December 2016 the Company has recognized impairment loss at the amount of BGN 1,316 thousand.

At the end of January 2017 the Company received the amount of BGN 1,000 thousand, which is part of the advance payment, subject to recovery, in accordance with the provisions of the preliminary sale agreement for the purchase of land property. The outstanding advance payment before impairment, amounting to BGN 880 thousand, together with the agreed compensation payment of BGN 100 thousand, were received in September 2017.

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9. Advance payments to suppliers (continued)

Movements in the provision for the impairment of receivables from advance payments to suppliers are as follows:

	<u>2018</u>	<u>2017</u>
	<i>BGN'000</i>	<i>BGN'000</i>
Balance at 1 January	-	1,316
Reversal of impairment loss	-	<u>(1,316)</u>
Balance at 31 December	<u>-</u>	<u>-</u>

10. Cash and short-term deposits

	<u>2018</u>	<u>2017</u>
	<i>BGN'000</i>	<i>BGN'000</i>
Cash on hand	92	114
Cash in bank accounts	930	3,574
Short-term deposits	<u>17,539</u>	<u>26,000</u>
	<u>18,561</u>	<u>29,688</u>

Cash in bank accounts earns interest at floating rates based on daily bank deposit rates. Short-term deposits are made for varying periods – between 3 months and 6 months (2017: from 6 months to 8 months), depending on the immediate cash requirements of the Company. They earn interest at negotiated fixed rates.

11. Share capital and reserves

11.1 Share capital

The share capital of the Company comprises 85,110,091 fully-paid ordinary registered dematerialized shares with par value of BGN 1 each. All shares are dividend shares with liquidation quota which carry a right to one vote per share at the General Assembly of shareholders.

	<u>Number of shares</u> <u>(thousands)</u>	<u>Par value</u> <u>(BGN)</u>	<u>Share capital</u> <u>(BGN'000)</u>
At 1 January 2017	<u>85,110</u>	<u>1</u>	<u>85,110</u>
At 31 December 2017	<u>85,110</u>	<u>1</u>	<u>85,110</u>
At 31 December 2018	<u>85,110</u>	<u>1</u>	<u>85,110</u>

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11. Share capital and reserves (continued)

11.1 Share capital (continued)

List of the main shareholders of the Company is presented below:

	31 December 2018	31 December 2018	31 December 2017	31 December 2017
	Number of shares	Interest (%)	Number of shares	Interest (%)
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	5,021,276	5.90	5,169,756	6.07
	35,112,393	41.25	35,260,873	41.42

As of 31 December 2018 the remaining part of the share capital is held by 143 legal entities /27,960,315 shares/ and 1 694 natural persons /22,037,383 shares/, each of whom holding less than 5% of the capital.

As of 31 December 2017 the remaining part of the share capital is held by 171 legal entities /30,384,820 shares/ and 1 691 natural persons /19,464,398 shares/, each of whom holding less than 5% of the capital.

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

11.2 Share premium

As at 31 December 2018 the share premium amount is BGN 43,411 thousand (2017: BGN 43,411 thousand). It is the result of five increases of the Company's capital in the period between 2005 and 2008 and presents the difference between the issue price and nominal value of the new shares. Share premium can only be used to cover losses from a previous year.

11.3 Other reserves

Non-received and unclaimed dividends after the expiration of the five-year prescription period are accounted for as other reserves of the Company. As of 31 December 2018 their amount is: BGN 17 thousand (2017: BGN 4 thousand).

12. Provisions

12.1 General provisions

	2018	2017
	<i>BGN'000</i>	<i>BGN'000</i>
Balance at 1 January	35	55
Provisions reversed during the year	-	(20)
Balance at 31 December	35	35

According to the legal consultants of the Company, the lawsuits filed against buyers of Company's property regarding the ownership rights over already sold property, will be lost and the buyers will be evicted from the property. Therefore, the Company has accrued provisions for the reimbursement of the amount paid pursuant to the sales contract.

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12. Provisions (continued)

12.2 Provision for dividends

In compliance with Article 10 of ASIPC, the Company is obliged to allocate as dividend no less than 90% of the financial result, which shall be converted following the procedure outlined in Article 10, Paragraph 3 of the same Act. As of 31 December 2018 according to a decision taken at the General Assembly of shareholders, the accrued dividend of the Company amounts to BGN 3,658 thousand (BGN 0.043 per share) which is expected to be paid in 2019.

The amount of dividend provision for 2018 was determined as follows:

	<u>2018</u>
Book profit, as per the statement of comprehensive income	10,777
<i>Adjustment for:</i>	
Net gain on subsequent measurement of investment property (Article 10, Para. 3, item 1 of ASIPC)	(7,005)
Profits on transactions for transfer of ownership of property (Article 10, Para. 3, item 2 of ASIPC)	(44)
Losses on transactions for transfer of ownership of property (Article 10, Para. 3, item 2 of ASIPC)	4
Difference between the selling price and the historical cost of the property (Article 10, Para. 3, item 3 of ASIPC)	138
Positive difference between the discounted lease payments and the historical cost upon termination of finance lease contracts (Article 10, Para. 3, item 5 of ASIPC)	53
Profits on sales, reported in the year of conclusion of finance lease contracts (Article 10, Para. 3, item 4 of ASIPC)	(203)
Positive difference between the discounted selling price and the historical cost upon termination of deferred payment contracts (Article 10, Para. 3, item 5 of ASIPC)	344
<i>Adjusted financial result for the period</i>	<u>4,064</u>
Dividend distribution - 90% of the adjusted financial result	90%
Dividend payable	<u>3,658</u>

As of 31 December 2017 the accrued dividend of the Company amounts to BGN 8,929 thousand (BGN 0.10 per share) which was paid in 2018.

The amount of dividend provision for 2017 was determined as follows:

	<u>2017</u>
Book profit, as per the statement of comprehensive income	30,103
<i>Adjustment for:</i>	
Net gain on subsequent measurement of investment property (Article 10, Para. 3, item 1 of ASIPC)	(22,261)
Profits on transactions for transfer of ownership of property (Article 10, Para. 3, item 2 of ASIPC)	(3,646)
Losses on transactions for transfer of ownership of property (Article 10, Para. 3, item 2 of ASIPC)	110
Difference between the selling price and the historical cost of the property (Article 10, Para. 3, item 3 of ASIPC)	6,967
Profits on sales, reported in the year of conclusion of finance lease contracts (Article 10, Para. 3, item 4 of ASIPC)	(65)
Positive difference between discounted lease cost and historical cost at the expiry of the term of validity of the financial lease contract (Article 10, Para. 3, item 5 of ASIPC)	588
Profits on sales, reported in the year of conclusion of deferred payment contracts (Article 10, Para. 3, item 4 of ASIPC)	(2,212)
Carrying amount of expropriated parts of newly-formed regulated land plots	911
Historical cost of expropriated parts of newly-formed regulated land plots	(574)
<i>Adjusted financial result for the period</i>	<u>9,921</u>
Dividend for distribution, under a decision of the General Assembly of shareholders – 90,94% of the adjusted financial result	9,022
Dividend payable as of 31 December 2017 – 90% of the adjusted financial result	(8,929)
Dividend payable to be additionally accrued in 2018, based on a previous period	<u>93</u>
Total amount of the dividend accrued in 2018	<u>3,751</u>

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12. Provisions (continued)

12.2 Provision for dividends (continued)

In 2018 and in 2017 the movement in the dividend payable can be presented as follows:

	<u>2018</u>	<u>2017</u>
	<i>BGN'000</i>	<i>BGN'000</i>
Balance at 1 January	9,001	13,244
Dividends distributed for the current year	3,658	8,929
Additionally accrued distributed dividends for 2017	93	-
Additionally accrued distributed dividends for 2016	-	1,376
Dividends paid, net after tax deductions	(8,892)	(14,356)
Tax deductions on payments of dividends	(126)	(191)
Dividends with expired statute of limitations	<u>(13)</u>	<u>(1)</u>
Balance at 31 December	<u>3,721</u>	<u>9,001</u>

The Board of Directors of the Company has adopted the following dividend distribution policy for 2017:

1. Gross dividend per share – BGN 0.106;
2. Net dividend per share for shareholders – natural persons – BGN 0.101;
3. Commercial bank selected for dividend payment – DSK Bank AD;
4. The date on which the shareholders list is defined under the requirements of the Public Offering of Securities Act – 13 July 2018;
5. Dividend payment procedure:
 - 5.1. Dividends payable to shareholders, having securities accounts kept with the Central Depository AD, Register A (personal accounts), are to be paid through the branches of DSK Bank AD;
 - 5.2. Dividends payable to shareholders, having securities accounts kept with the Central Depository AD, register B (client sub-accounts with investment intermediary), are to be paid by the particular investment intermediary with the assistance of Central Depository AD;
6. Starting date for dividend payment – 30 July 2018;
7. Ending date for dividend payment – 30 October 2018;

After the ending date for dividend payment, within the five-year prescription period, a shareholder who has not been paid dividends for 2017 can receive the amount of dividend from the Company in cash or via a bank transfer following an explicit request, sent to the Company's registered office: 1 Zlatovrah Street, Lozenets District, Sofia or via the following fax: +359 2 4008331. After the expiration of the five-year prescription period, all dividends not received and not requested by the shareholders are to be taken to the Reserve Fund of the Company.

As at 31 December 2018, the Company has reported unpaid dividend obligation for the period from 2013 to 2017, to the total amount of BGN 63 thousand.

As at 31 December 2017, the Company has reported unpaid dividend obligation for the period from 2012 to 2016, to the total amount of BGN 72 thousand.

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13. Trade and other payables

	<u>2018</u>	<u>2017</u>
	<i>BGN'000</i>	<i>BGN'000</i>
Advance payments received for the financial year 2018-2019	1,944	-
Payables to the Servicing company (Note 14.1)	1,012	953
Payables to suppliers and brokers	56	64
Advance payments received for the financial year 2017-2018	-	1,741
Advance payments received from property sales	-	216
Other	7	5
	<u>3,019</u>	<u>2,979</u>

The terms and conditions of the payables set out in the table above are as follows:

- Payables to suppliers and brokers are non-interest bearing and are normally settled on 14-day terms.
- Payables to the Servicing company are non-interest bearing and are normally settled on 30-day terms.

14. Related party disclosures

14.1 Fees due to the Servicing company

The Company has a service contract with Karoll Finance EOOD, which holds 17.65% of the share capital of the Company. In accordance with the provisions of the contract, Karoll Finance EOOD shall provide consultancy and administrative services and human resources services in return for an annual fee which shall be calculated as follows:

1. 0.375% of the value of the Company's investment property at acquisition cost, 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 selling price and the acquisition cost in the case of sales transaction, provided that the internal rate of return (IRR) on the investment amounts to at least 15%, calculated on an annual basis;
4. 2.5% on the difference between the lease price/selling price under a finance lease contract/deferred payment contract and the acquisition cost of the relevant property;
5. Annual management and administration fee for each finance lease contract/deferred payment contract to the amount of 0.6 on the fee under Item 4 (above) for every year of the duration of the finance lease contract/deferred payment contract.

The total amount of the fee under the service contract with Karoll Finance EOOD (the financial services company in compliance with ASIPC) amounts to BGN 3,226 thousand and BGN 4,075 thousand for 2018 and 2017, respectively.

	<u>2018</u>	<u>2017</u>
	<i>BGN'000</i>	<i>BGN'000</i>
Balance at 1 January	953	861
Accrued during the year (Note 5.3)	3,226	4,075
Paid during the year	(3,167)	(3,983)
Balance at 31 December	<u>1,012</u>	<u>953</u>

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14. Related party disclosures (continued)

14.2 Board of Directors remuneration

In 2018 the Company paid remuneration amounting to BGN 81 thousand to the members of the Board of Directors, including BGN 12 thousand for social security contributions. There is no change compared to the remuneration paid in 2017.

The Company has not opted for a defined-benefit pension plan for its employees or for share-based payments.

14.3 Transactions with related parties to the Servicing company Karoll Finance EOOD

The table below provides information about the total amount of transactions that the Company has entered into with related parties to the Servicing company Karoll Finance EOOD as well as the relevant information regarding outstanding balances as of 31 December 2018 and 31 December 2017.

2018

Leases	<u>Receivable at the beginning of the year</u>	<u>Accrued during the year</u>	<u>Received during the year</u>	<u>Receivable at the end of the year</u>
	<i>BGN'000</i>	<i>BGN'000</i>	<i>BGN'000</i>	<i>BGN'000</i>
Agro Terra Sever AD	693	546	(551)	688
Remuss OOD	357	247	(297)	307

2017

Leases	<u>Receivable at the beginning of the year</u>	<u>Accrued during the year</u>	<u>Received during the year</u>	<u>Receivable at the end of the year</u>
	<i>BGN'000</i>	<i>BGN'000</i>	<i>BGN'000</i>	<i>BGN'000</i>
Agro Terra Sever AD	657	555	(519)	693
Remuss OOD	347	283	(273)	357

15. Basic earnings per share

	<u>2018</u>	<u>2017</u>
	<i>BGN'000</i>	<i>BGN'000</i>
Profit for the year (BGN'000)	10,777	30,103
Weighted average number of shares	85,110,091	85,110,091
Basic earnings per share (BGN)	0.13	0.35

The weighted average number of shares is calculated by adjusting the ordinary shares in issue at the beginning of the period by the number of the shares issued during the period, multiplied by a time-weighting factor.

16. Financial risk and capital management objectives and policies

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

Credit risk

The Company carries out credit policies to attract creditworthy customers with good financial standing and credit history in order to manage investment property. The Company is not exposed to any significant credit risk.

The table below shows the Company's maximum exposure to credit risk for each class of financial asset:

	<u>2018</u>	<u>2017</u>
	<i>BGN'000</i>	<i>BGN'000</i>
Receivables from sale with deferred payment terms (Note 7.2)	12,109	13,211
Trade receivables, net of impairment (Note 8)	2,103	2,043
Finance lease receivables (Note 7.1)	1,474	2,106
Court receivables (Note 8)	28	30
Interest receivables from deposits in BGN (Note 8)	6	15
Cash and short-term deposits (Note 10)	<u>18,561</u>	<u>29,688</u>
	<u>34,281</u>	<u>47,093</u>

16. Financial risk and capital management objectives and policies (continued)

Credit risk (continued)

An analysis of the credit quality of financial assets is presented below:

	<u>2018</u>	<u>2017</u>
	<i>BGN'000</i>	<i>BGN'000</i>
Trade receivables, gross		
Receivables on contracts with deferred payment terms	12,109	13,211
Receivables on finance lease contracts	1,474	2,106
Rent receivables	<u>914</u>	<u>1,014</u>
Total receivables neither past due, nor impaired	<u>14,497</u>	<u>16,331</u>
Past due, but not impaired		
- past due up to 30 days	-	-
- past due between 30 – 90 days	-	-
- past due between 90 – 180 days	1,189	1,020
- past due between 180 – 360 days	<u>-</u>	<u>-</u>
Total receivables past-due, but not impaired	<u>1,189</u>	<u>1,020</u>
Receivables individually impaired, gross		
- past due over 1 year	29	248
- past due between 2 and 5 years	<u>500</u>	<u>483</u>
Total receivables individually impaired	<u>529</u>	<u>731</u>
<i>Less provision for impairment of receivables</i>	<u>(529)</u>	<u>(722)</u>
Total receivables after impairment loss	<u>15,686</u>	<u>17,360</u>

In determining the amount of the provision for impairment of receivables, the Company has estimated that the provision for expected credit losses of receivables past due less than 360 days is insignificant. As a result, such provision is not recognized.

Cash and short-term deposits, neither past due, nor impaired, are presented in the table below:

Credit rating *	<u>2018</u>	<u>2017</u>
	<i>BGN'000</i>	<i>BGN'000</i>
A-	930	3,574
BB	1,000	-
BBB-	<u>16,539</u>	<u>26,000</u>
	<u>18,469</u>	<u>29,574</u>

* The credit rating is prepared by Fitch Ratings

16. Financial risk and capital management objectives and policies (continued)

Liquidity risk

In order to assess the exposure to liquidity risk, the Company monitors its cash flows, the maturities of its debt obligations and its liquidity ratio. The Company always maintains sufficient liquid funds to provide financial resources for its activities and to reduce the effects of cash flows fluctuations. The financial resources for the Company's business activities are provided through public offering of securities and through numerous credit possibilities offered by different financial institutions. The Company's loans are secured against the investment property it possesses.

The table below summarises the maturity profile of the Company's financial assets and liabilities at 31 December based on contractual undiscounted payments.

As of 31 December 2018

	<1 month	1-3 months	3-12 months	1-5 years	Total
<i>Financial assets</i>					
	<i>BGN'000</i>	<i>BGN'000</i>	<i>BGN'000</i>	<i>BGN'000</i>	<i>BGN'000</i>
Cash and short-term deposits	1,930	14,539	2,000	-	18,469
Interest receivables from deposits in BGN	-	-	6	-	6
Finance lease receivables, gross	-	66	582	927	1,575
Receivables from sales with deferred payment terms, gross	36	171	4,172	8,564	12,943
Court receivables	28	-	-	-	28
Trade receivables, net of impairment	1,189	-	914	-	2,103
	3,183	14,776	7,674	9,491	35,124
<i>Financial liabilities</i>					
	<i>BGN'000</i>	<i>BGN'000</i>	<i>BGN'000</i>	<i>BGN'000</i>	<i>BGN'000</i>
Payables to suppliers and brokers	56	-	-	-	56
Payables to related parties	911	-	101	-	1,012
Dividends payable	63	-	3,658	-	3,721
	1,030	-	3,759	-	4,789

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16. Financial risk and capital management objectives and policies (continued)

Liquidity risk (continued)

As of 31 December 2017

	<1 month	1-3 months	3-12 months	1-5 years	Total
<i>Financial assets</i>					
	<i>BGN'000</i>	<i>BGN'000</i>	<i>BGN'000</i>	<i>BGN'000</i>	<i>BGN'000</i>
Cash and short-term deposits	3,688	5,000	21,000	-	29,688
Interest receivables from deposits in BGN	-	3	12	-	15
Finance lease receivables, gross	-	66	603	1,636	2,305
Receivables from sales with deferred payment terms, gross	72	117	3,323	11,066	14,578
Court receivables	30	-	-	-	30
Trade receivables, net of impairment	1,109	-	934	-	2,043
	4,899	5,186	25,872	12,702	48,659
<i>Financial liabilities</i>					
	<i>BGN'000</i>	<i>BGN'000</i>	<i>BGN'000</i>	<i>BGN'000</i>	<i>BGN'000</i>
Payables to suppliers and brokers	64	-	-	-	64
Payables to related parties	860	9	84	-	953
Dividends payable	72	-	8,929	-	9,001
	996	9	9,013	-	10,018

Interest rate risk

The value of the Company's assets depends on the changes in market interest rates. The Company is exposed to the risk related to interest rates fluctuations since the yield on interest-bearing assets changes as a result of the changes in market interest rates. With regard to the floating interest rates, the Company is exposed to a risk related to the interest rate index which is used to determine the value of the relevant financial instrument. As at 31 December 2018, the Company does not have significant financial assets and liabilities with floating interest rates and therefore the Company's exposure to interest rate risk is insignificant.

Foreign currency risk

The Company is exposed to foreign currency risk when carrying out transactions with financial instruments denominated in foreign currencies. The transactions denominated in foreign currencies generate profit and loss from foreign exchange differences. As of 31 December 2018 and 31 December 2017 the financial assets and investments are denominated in BGN and EUR. Since the exchange rate of BGN/EUR is fixed, the foreign currency risk originating from the EUR exposure of the Company is insignificant. As of the reporting date the Company has no exposure to foreign currencies different from BGN and EUR.

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16. Financial risk and capital management objectives and policies (continued)

Market risk

Market risk is a systematic risk, which influences the value of all assets. It depends on the macroeconomic environment and the state of the capital market in the country. The market risk is beyond the Company's control and as a whole it cannot be reduced or eliminated through diversification. One of the main strategies to reduce market risk and its components is to collect and process information about the macroeconomic environment. Based on this information, the Company can make projections and adapt its investment policy to the expected changes in the environment.

The Company's investment portfolio allocates at least 90% of its assets in agricultural land and up to 10% in land in urbanized territories. The agricultural land is exposed to a low risk related to changes in the level of prices and the level of rents.

Advance Terrafund ADSIC continues to pursue the policy to invest in high quality property thus meeting the needs for the development of modern and sustainable agriculture. The Company rents out and leases agricultural and urbanized land and creates long-term value for its first-class tenants/lessees/.

The structure of the Company's investment portfolio (without investment property held for sale) is as follows:

	31 December 2018		31 December 2017	
	Fair market value BGN thousand	% of net assets valued at market price	Fair market value BGN thousand	% of net assets valued at market price
Agricultural land	204,654	93.53	186,363	92.45
Property in regulation	11,099	5.07	11,679	5.79
Property in urbanized territories	3,067	1.40	3,550	1.76
Total	218,820	100.00	201,592	100.00

Capital risk

Capital management aims to maximize the return to shareholders through the optimization of the capital structure. The Company's strategy has remained unchanged since the end of 2017. The capital structure comprises cash and short-term deposits and equity (see Note 10 and Note 11, respectively).

	2018 BGN'000	2017 BGN'000
Total liabilities	6,775	12,015
Less: cash and short-term deposits	(18,561)	(29,688)
Net debt	(11,786)	(17,673)
Non-current liabilities	-	-
Equity	246,901	239,862
Debt-to-equity ratio (non-current liabilities to equity)	0	0

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17. Fair value measurement

Quantitative disclosures related to the fair value hierarchy as of 31 December 2018

	<u>Measurement date</u>	<u>Carrying amount</u>	<u>Quoted market prices in active markets (Level 1)</u>	<u>Significant observable inputs (Level 2)</u>	<u>Significant unobservable inputs (Level 3)</u>
		<i>BGN'000</i>	<i>BGN'000</i>	<i>BGN'000</i>	<i>BGN'000</i>
Assets, measured at fair value:					
Investment property (Note 6.1)					
Agricultural land	31.12.2018	204,654	-	-	204,654
Property in regulation	31.12.2018	11,099	-	-	11,099
Property in urbanized territories	31.12.2018	3,067	-	-	3,067
Assets, for which fair value is disclosed:					
Receivables on finance lease contracts (Note 7.1)					
	31.12.2018	1,474	-	1,474	-
Receivables on contracts with deferred payment terms (Note 7.2)					
	31.12.2018	12,109	-	12,109	-

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17. Fair value measurement (continued)

Quantitative disclosures related to the fair value hierarchy as of 31 December 2017

	Measurement date	Carrying amount <i>BGN'000</i>	Quoted market prices in active markets (Level 1) <i>BGN'000</i>	Significant observable inputs (Level 2) <i>BGN'000</i>	Significant unobservable inputs (Level 3) <i>BGN'000</i>
Assets, measured at fair value:					
Investment property (Note 6.1)					
Agricultural land	31.12.2017	186,363	-	-	186,363
Property in regulation	31.12.2017	11,679	-	-	11,679
Property in urbanized territories	31.12.2017	3,550	-	-	3,550
Investment property held for sale (Note 6.2)	31.12.2017	2,446	-	-	2,446
Assets, for which fair value is disclosed:					
Receivables on finance lease contracts (Note 7.1)					
	31.12.2017	2,106	-	2,106	-
Receivables on contracts with deferred payment terms (Note 7.2)					
	31.12.2017	13,211	-	13,211	-

In 2018 and in 2017 no transfers occurred between the levels in the fair value hierarchy.

Fair value of financial instruments

A comparative analysis of the carrying amounts and fair values of the Company's financial instruments is presented below:

<i>Financial assets</i>	<i>Carrying amount</i>		<i>Fair value</i>	
	2018 <i>BGN'000</i>	2017 <i>BGN'000</i>	2018 <i>BGN'000</i>	2017 <i>BGN'000</i>
Receivables on deferred payment sales	12,109	13,211	12,109	13,211
Receivables on finance leases	1,474	2,106	1,474	2,106
Trade receivables	2,103	2,043	2,103	2,043
Court receivables	28	30	28	30
Interest receivables from deposits	6	15	6	15
Cash and short-term deposits	18,561	29,688	18,561	29,688

Translation in English of the official financial statements issued in Bulgarian.

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17. Fair value measurement (continued)

Fair value of financial instruments (continued)

<i>Financial liabilities</i>	<i>Carrying amount</i>		<i>Fair value</i>	
	2018	2017	2018	2017
	<i>BGN'000</i>	<i>BGN'000</i>	<i>BGN'000</i>	<i>BGN'000</i>
Payables to suppliers and brokers	56	64	56	64
Payables to related parties	1,012	953	1,012	953
Dividends payable	3,721	9,001	3,721	9,001

Fair value of the financial instruments of the Company is defined as 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.

Fair value measurement is based on the following methods and assumptions:

- Fair values of long-term financial assets with fixed interest rates are determined by discounting the estimated future cash flows using current market interest rates.
- Fair values of financial instruments which include cash and short-term deposits, trade receivables, trade payables and other financial assets and liabilities reasonably approximate the respective carrying amounts because of their short-term character.

18. Events after the reporting date

No events have occurred after the reporting date until the date on which the present financial statements are approved for issue, which require additional adjustments and/or disclosures in the financial statements of the Company for the year ended 31 December 2018.