

**ADVANCE TERRAFUND REIT**

INTERIM FINANCIAL STATEMENTS

30 June 2020

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**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

**ADVANCE TERRAFUND ADSITS**  
**STATEMENT OF COMPREHENSIVE INCOME**  
for the period ended 30 June 2020

	Notes	2020 <i>BGN'000</i>	2019 <i>BGN'000</i>
<b>Revenue</b>			
Income from sale of an investment in a subsidiary	5.1	2,083	-
Carrying amount of an investment in a subsidiary		(1,815)	-
Revenues from sales of an investment in a subsidiary		268	-
Income from sale of investment property	5.1	630	3,933
Carrying amount of property sold		(423)	(2,977)
Revenues from sales of investment property		207	956
Income from leasing and renting of investment property	5.1	3,317	3,272
Interest income	5.5	195	306
Other income	5.2	69	61
<b>Total revenue</b>		<b>4,056</b>	<b>4,595</b>
<b>Expenses</b>			
Costs of hired services	5.3	(1,732)	(1,918)
Employee benefits expense		(63)	(64)
Provision expenses	11.1	(18)	(20)
Financial expenses		(1)	(1)
Other expenses	5.4	(158)	(17)
<b>Total expenses</b>		<b>(1,972)</b>	<b>(2,020)</b>
<b>Profit for the year</b>		<b>1,138</b>	<b>1,021</b>
Other comprehensive income for the year		-	-
<b>Total comprehensive income for the year</b>		<b>1,138</b>	<b>1,021</b>
Basic earnings per share (BGN)	14	0.013	0.012

\_\_\_\_\_  
Radoslav Manolov  
Executive director

\_\_\_\_\_  
Yoana Georgieva  
Preparer

The accompanying financial statements were authorised for issue with a resolution of the Board of Directors dated 28 July 2020.

The notes on pages 5 to 41 form an integral part of these financial statements.

ADVANCE TERRAFUND ADSITS  
STATEMENT OF FINANCIAL POSITION  
As of 30 June 2020

	Notes	2020 <i>BGN'000</i>	2019 <i>BGN'000</i>
<b>ASSETS</b>			
<b>Non-current assets</b>			
Investment property	6.1	213,448	212,467
Receivables on lease contracts and on deferred payment sales	7	5,151	5,141
		<b>218,599</b>	<b>217,608</b>
<b>Current assets</b>			
Receivables on lease contracts and on deferred payment sales	7	3,777	4,297
Trade and other receivables	8	4,452	2,863
Cash and cash equivalents	9	27,084	28,075
		<b>35,313</b>	<b>35,235</b>
Investment property held for sale	6.2	422	275
<b>TOTAL ASSETS</b>		<b>254,334</b>	<b>253,118</b>
<b>EQUITY AND LIABILITIES</b>			
<b>Equity</b>			
Share capital	10.1	85,110	85,110
Share premium	10.2	43,411	43,411
Other reserves	10.3	25	25
Retained earnings		111,116	109,978
<b>Total equity</b>		<b>239,662</b>	<b>238,524</b>
<b>Current liabilities</b>			
Trade and other payables	12	2,186	3,068
Dividends payable	11.2	11,502	11,506
Provisions	11.1	38	20
		<b>13,726</b>	<b>14,594</b>
<b>Total liabilities</b>		<b>13,726</b>	<b>14,594</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>254,334</b>	<b>253,118</b>

\_\_\_\_\_  
Radoslav Manolov  
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\_\_\_\_\_  
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ADVANCE TERRAFUBD ADSITS  
STATEMENT OF CHANGES IN EQUITY  
for the period ended 30 June 2020

	Share capital (Note 10.1)	Share premium (Note 10.2)	Other reserves (Note 10.3)	Retained earnings	Total
	<i>BGN'000</i>	<i>BGN'000</i>	<i>BGN'000</i>	<i>BGN'000</i>	<i>BGN'000</i>
<b>At 1 January 2019</b>	<b>85,110</b>	<b>43,411</b>	<b>17</b>	<b>118,363</b>	<b>246,901</b>
Profit for 2019	-	-	-	3,435	3,435
Other comprehensive income	-	-	-	-	-
Total comprehensive income	-	-	-	3,435	3,435
Transactions with equity holders					
Dividend (Note 11.2)	-	-	-	(11,820)	(11,820)
Dividends with expired prescription period	-	-	8	-	8
<b>At 31 December 2019</b>	<b>85,110</b>	<b>43,411</b>	<b>25</b>	<b>109,978</b>	<b>238,524</b>
<b>At 1 January 2020</b>	<b>85,110</b>	<b>43,411</b>	<b>25</b>	<b>109,978</b>	<b>238,524</b>
Profit for the period ended 30 June 2020	-	-	-	2,084	2,084
Other comprehensive income	-	-	-	-	-
Total comprehensive income	-	-	-	2,084	2,084
<b>At 30 June 2020</b>	<b>85,110</b>	<b>43,411</b>	<b>25</b>	<b>112,062</b>	<b>240,608</b>

\_\_\_\_\_  
Radoslav Manolov  
Executive director

\_\_\_\_\_  
Yoana Georgieva  
Preparer

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**ADVANCE TERRAFUND ADSITS**  
**STATEMENT OF CASH FLOWS**  
for the period ended 30 June 2020

	Note	2020	2019
		<i>BGN'000</i>	<i>BGN'000</i>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Purchase of investment property		(3,604)	(5,242)
Cash flows related to business counterparties		(429)	(328)
Cash receipts from rent and sales of investment property, including reimbursement payments		4,636	8,740
Cash payments for salary expenses		(73)	(82)
Interest received on bank accounts and deposits		7	9
Other cash flows generated from operations		<u>(1,523)</u>	<u>(1,702)</u>
<b>Net cash flows from operating activities</b>		<b><u>(986)</u></b>	<b><u>1,395</u></b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Cash flows related to payment of dividends	11.2	(4)	(3,948)
Other cash flows from financing activities		<u>(1)</u>	<u>(1)</u>
<b>Net cash flows used for financing activities</b>		<b><u>(5)</u></b>	<b><u>(3,949)</u></b>
Changes in cash and cash equivalents		(991)	(2,554)
Cash and cash equivalents at the beginning of the period	9	<u>28,075</u>	<u>18,561</u>
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD</b>	<b>9</b>	<b><u><u>27,084</u></u></b>	<b><u><u>16,007</u></u></b>

\_\_\_\_\_  
Radoslav Manolov  
Executive director

\_\_\_\_\_  
Yoana Georgieva  
Preparer

The accompanying financial statements were authorised for issue with a resolution of the Board of Directors dated 28 July 2020.

The notes on pages 5 to 41 form an integral part of these financial statements.

## 1. Corporate information

The financial statements of Advance Terrafund REIT for the period ended 30 June 2020 were authorized for issue in accordance with a resolution of the Board of Directors on 28 July 2020.

Advance Terrafund REIT (the “Company”) is a public joint-stock company which was established at the Constituent Assembly dating from 12 April 2005, with initial capital amounting to BGN 500 thousand, allocated into 500,000 shares with par value of BGN 1 each. The Company was re-registered with the Trade Register of the Registry Agency under UIC 131418187. The 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 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 Special Purpose Investment Companies Act (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. The persons entrusted with the general management are 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 REIT, which as of 30 June 2020, is a shareholder holding 17,65% of the capital of Advance Terrafund REIT. 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 30 June 2020 the capital of the Company amounts to BGN 85,110,091 (see Note 10.1).

### 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.

The Management has made an assessment of the Company’s ability to continue as a going concern in the foreseeable future and has concluded that the going concern assumption is appropriate for the preparation of these financial statements and that there are no material uncertainties that may cast significant doubt about the Company’s ability to continue as a going concern which have to be disclosed in the financial statements. Consequently, the financial statements of the Company 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 REIT 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.



## 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's scope of activity is related to the 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 passed to the customer in exchange for an amount that reflects the consideration the Company expects to be entitled to in exchange for the investment property. As a whole, the Company has come to the conclusion that it is a principal in its revenue arrangements since the Company has the control over the property before transferring it to the client.

Disclosures for significant accounting judgments, estimates and assumptions in relation to revenue from contracts with customers are presented in Note 3.

#### *Sale of investment property*

Revenue from the sale of investment property is recognized in the statement of comprehensive income at a time when the control of the property is transferred to the client, which is the transfer of the legal right of ownership, except in the case of deferred payment sales. The main judgments of the management of the Company in relation to the transfer of control, when selling investment property with deferred payment, 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 considers the existence of significant financing component.

#### (i) *Variable consideration*

When a contract contains elements of variable consideration, 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 client. 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. Certain contracts for the sale of investment property provide a customer with a right to terminate the contract within a specified period of the contract. Rights of termination give rise to variable consideration. In addition, the Company enters into deferred payment contracts that contain several provisions for earlier performance of the contract with different rates of 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 concludes deferred payment contracts for the sale of agricultural land for a period of five (five) years. The payment of the consideration is made in annual instalments. The right to use the land is conveyed to the buyer upon the reception of an earnest money deposit under the terms of the signed contract, while the legal transfer of ownership rights 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 this event, the Company keeps the earnest payment made, while each payment, other than the earnest amount, is reimbursed to the buyer.

The Company uses the expected value method to estimate the transactions that will not be terminated because 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 and presented in Note 3, the Company considers that its customers are not expected to terminate agricultural land sale agreements with deferred payment and therefore, as of 30 June 2020, has not recognized a refund liability or a right of return asset.

- Rights for early exercise of a contract with different rates of consideration

The Company concludes deferred payment contracts for the sale of agricultural land for a period of five (five) years. These contracts contain options for early exercise between the nineteenth (19th) and forty-eighth (48th) month, as well as from the contract inception (upon the full payment of the earnest amount) with a different amount of consideration for each option. The transfer of the legal rights of ownership is made after the exercise of the option. Based on the significant accounting judgments presented in Note 3, the Company recognizes revenue on such contracts based on the lowest agreed price.

(ii) *Significant financing component*

The Company receives short-term advances from its customers in relation to direct sales 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 good or service to the customer and when the customer pays for that good or service will be one year or less.

For sales contracts with deferred payment, the Company receives the consideration from its clients in instalments for a period of 5 /five/ years. The transaction price for such contracts is discounted, using the rate that would be reflected in a separate financing transaction between the Company and its customers at contract inception, to take into consideration 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 from deferred payment contracts is recognized for 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 client makes the payment of consideration by annual instalments based on a predetermined repayment schedule, the present value of the contractual payments is recognized as a receivable on a deferred payment, i.e. as a contract asset.

##### *(i) 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). Refer to accounting policies of financial assets in section f) Financial instruments – initial recognition and subsequent measurement.

##### *Costs to obtain a contract/ Contract performance costs*

The Company pays sales commission to its brokers for each contract that they obtain. 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 (included under costs for hired services) because the revenue from sales of investment property is recognized at a certain period of time and because the contracts are not of long-term character.

#### **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 exactly the estimated future cash outflows over the estimated 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.

### **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 Special Purpose Investment Companies Act (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 profit or loss attributable to ordinary equity holders of the parent 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 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.

## 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 deferred payment sales.

##### *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 original carrying amount of the asset and the maximum amount of 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 from sales under lease and deferred payment contracts (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 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 the receivables from sales under lease and deferred payment contracts separately taking into consideration the fair value of the collateral under the contract 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 30 June 2020 the Company does not recognize a provision for receivables from sales under lease and deferred payment contracts.

#### 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 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.

### **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 of financial instruments**

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 16.

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 of financial instruments (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.

In the case of sale of property under financial leasing, the present value of the lease payments is recognized as a finance lease receivable. The difference between the gross and the present value of the receivable is treated as financial income for a future period, but is not recognized as a liability in the statement of financial position. Financial lease income is recognized in the lease term using the effective interest method so as to obtain a constant interest rate on a residual principal.

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

## 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 30 June 2020 and as of 31 December 2019 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 (accounting 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 16 for the first time in 2019. The nature and effect of the changes resulting from the adoption of these new accounting standards are described below.

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

#### **IFRS 16 Leases**

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

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

The effect of the initial application of IFRS 16 as at 1 January 2019 does not result in any adjustments as at 1 January 2019 or changes in the statement of financial position as at 31 December 2019 and in the statement of comprehensive income for the year ended 31 December 2019.

#### **IFRIC 23 Uncertainty over Income Tax Treatments**

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

## 2.3 Changes in accounting policies and disclosures (continued)

### New and amended standards and interpretations (continued)

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

The Amendments, effective for annual periods beginning on or after 1 January 2019 with earlier application permitted, propose a change to IFRS 9 for particular financial assets that would otherwise have contractual cash flows that are solely payments of principal and interest but do not meet that condition only as a result of a negative prepayment feature. Specifically, for a financial asset that contains a prepayment option that may result in the payment of a reasonable negative compensation amount, the Amendments require the financial asset to be measured at amortised cost

or at fair value through other comprehensive income, subject to the assessment of the business model in which it is held. The amendments have no effect on the financial position or performance of the 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. The amendments have no effect on 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. The amendments have no effect on the financial position or performance of the Company.

#### **Annual Improvements to IFRSs 2015-2018 Cycle**

In the 2015-2018 annual improvements cycle, the IASB issued amendments to standards which are effective for annual periods beginning on or after 1 January 2019. Summary of amendments and related standards are provided below:

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

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

### 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:

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

When entering into sales agreements requiring non-refundable earnest payments by the buyers and deferred transfer of ownership rights, 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 conclusion (and the transfer of the physical possession of the asset) or at a later point in time coinciding with the legal transfer of ownership rights. These type of contracts are concluded for the period of 5 /five/ years while the payments are made in equal annual instalments. The right to use the land is conveyed to the buyer upon the reception of an earnest money deposit under the terms of the signed contract, while the legal transfer of ownership rights 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 this event, the Company keeps the earnest payment made, while each payment, other than the earnest 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 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 earnest 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 rights 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.

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

#### Judgments (continued)

##### *Revenue from contracts with customers (continued)*

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

As described above, deferred payment sale contracts of investment property include a right of return, which gives rise to variable consideration. The Company also enters into deferred payment sale contracts that contain several options for early completion and 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 method 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 the customers' exercise of the termination option, and has estimated that it is reasonably certain that the Company would 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 deferred payment sale contracts 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 30 June 2020 and as of 31 December 2019, the Company has estimated that the probability of a significant reversal in the amount of cumulative revenue recognized in relation to deferred payment sale contracts is insignificant. Accordingly, the Company does not recognize any refund liabilities for the expected returns, as well as assets for rights of return.

With regards to the deferred payment sale contracts containing several options for earlier completion 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 completion 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 deferred payment sale contracts 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 reflected 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.

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

#### **Judgments (continued)**

##### *Dividends payable calculation*

In compliance with the requirements of the Special Purpose Investment Companies Act, 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 2019 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 (l).

#### **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:

##### *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 2019 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 2019 the valuation is fully based on the market analogy method (comparative method).

##### *Provision for expected credit losses for trade receivables and receivables from lease and deferred payment sales*

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 will calibrate 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 of forecast 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.

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

#### **Estimates and assumptions (continued)**

##### ***Provision for expected credit losses for trade receivables and receivables from lease and deferred payment sales (continued)***

The Company analyzes the receivables from sales under lease and deferred payment contracts separately taking into consideration the fair value of the collateral under the contract less the amounts that would be returned to the customer upon eventual termination of the contract. As at 31 December 2019, the fair value of the collateral under the contract less the amounts that would be returned to the client upon termination of the contract exceeds the receivables from sales under lease and deferred payment contracts included in the statement of financial position. Accordingly, the Company did not recognize a provision for ECLs for receivables from sales under lease and deferred payment contracts. Additional information on receivables from sales under lease and deferred payments 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.

#### **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.

#### **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.

#### ***The Conceptual Framework for Financial Reporting***

The IASB issued the revised Conceptual Framework for Financial Reporting on 29 March 2019, 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.



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

##### ***Interest rate benchmark reform - IFRS 9, IAS 39 and IFRS 7 (Amendments)***

The amendments are effective for annual periods beginning on or after 1 January 2020 and must be applied retrospectively. Earlier application is also permitted. In September 2019, the International Accounting Standards Board (IASB) published amendments to IFRS 9, IAS 39 and IFRS 7, ending phase 1 of its work in response to the effects on financial reporting of interbank interest rate reform. Phase 2 will focus on problems that may arise when interest rates are replaced by risk-free interest rates. The changes address issues that occur while replacing existing interest rates with alternative interest rates. The effects on specific cases of hedge accounting under IFRS 9 Financial Instruments and IAS 39 Financial Instruments: Recognition and Measurement in which a future oriented analysis is required are addressed.

The amendments provide for temporary relief applicable to hedging requirements, where compliance with these requirements is directly influenced by the benchmark reform. The changes allow the hedge accounting to continue in the uncertainty period until the replacement of existing benchmark interest rates with alternative risk-free interest rates. Amendments to IFRS 7 Financial Instruments have also been made: Disclosures requiring the submission of additional information on hedge uncertainty resulting from the reform. The Company will analyze and evaluate the effects of the changes on its financial position or results of operations.

## 5. Revenue and expenses

### 5.1 Revenue from sales to external customers

	<u>2020</u>	<u>2019</u>
	<i>BGN'000</i>	<i>BGN'000</i>
<i>Revenue from sale</i>		
Revenue from sale of an investment in a subsidiary	2,083	-
Revenue from deferred payment sales of property	505	937
Revenue from direct sales of property	-	2,865
Revenue from unexercised options on previously realized sales of properties on deferred payment (Note 7.2)	121	131
Revenue from sales of property on leaseng	4	-
	<u><b>2,713</b></u>	<u><b>3,933</b></u>
<i>Revenue from lease or rent of property</i>	<u>3,317</u>	<u>3,272</u>
Total revenue from external customers	<u><b>6,030</b></u>	<u><b>7,205</b></u>

With a contract for sale of company share dated 12 of March 2020 Advance Terrafund REIT sold to Vereya Stroy EOOD, with UIC 123688592 all its shareholding in the special - purpose subsidiary ATERA 1 EOOD under Art. 129 of the Commercial Law.

The agreed sale price of EUR 1,064,900 (one million sixty-four thousand nine hundred euros) was paid in full by the buyer in BGN equivalence calculated by the fixing rate of Bulgarian National Bank in the bank account of Advance Terrafund REIT as of the date of signature of the mentioned contract.

#### 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>2020</u>	<u>2019</u>
		<i>BGN'000</i>	<i>BGN'000</i>
Customer 1	Sales	2,083	-
Customer 2	Sales	275	-
Customer 3	Sales	-	2,833
Customer 4	Sales	-	937
Customer 5	Rentals	452	411
Customer 6	Rentals	442	428

Key customer information includes revenue from sales of investment property and rental income from 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>2020</u>	<u>2019</u>
	<i>BGN'000</i>	<i>BGN'000</i>
Income from compensations for expropriated properties and established real rights	37	32

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Income from statutory interest charged for late payment of receivables	28	26
Income from impaired / written off in previous periods receivables	2	3
Income from reimbursed costs of cases	2	-
	<u>69</u>	<u>61</u>

## 5. Revenue and expenses (continued)

### 5.3 Expenses on hired services

	<u>2020</u>	<u>2019</u>
	<i>BGN'000</i>	<i>BGN'000</i>
Consultancy services	1,384	1,584
Brokers' commissions	279	259
Professional insurance	23	23
Property management costs subsequent to acquisition	16	19
Advertising	11	11
Annual fees	10	9
Other expenses and fees	9	13
	<u><b>1,732</b></u>	<u><b>1,918</b></u>

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

	<u>2020</u>	<u>2019</u>
	<i>BGN'000</i>	<i>BGN'000</i>
Financial services company remuneration (Note 13.1)	1,346	1,538
Valuation services	20	20
Other consultancy services	18	26
Total	<u><b>1,384</b></u>	<u><b>1,584</b></u>

### 5.4 Other expenses

	<u>2020</u>	<u>2019</u>
	<i>BGN'000</i>	<i>BGN'000</i>
Negative difference between the carrying amount and the value of the property contributed to a subsidiary (Note 6.1)	102	-
Book value of expropriated properties	44	
Participation in trainings and seminars	9	9
Legal services	3	6
Other	-	2
	<u><b>158</b></u>	<u><b>17</b></u>

## 5. Revenue and expenses (continued)

### 5.5 Finance income

	2020	2019
	<i>хил. лв.</i>	<i>хил. лв.</i>
Interest income on deferred payment contracts	176	267
Interest income on lease purchase contracts	13	34
Interest income from bank accounts and deposits	6	5
	<b>195</b>	<b>306</b>

## 6. Property

### 6.1 Investment property

	Agricultural land	Property within urbanized territories	Total
	<i>BGN'000</i>	<i>BGN'000</i>	<i>BGN'000</i>
	Level 3	Level 3	Level 3
Level within the fair value hierarchy			
Fair value			
On 1 January 2019	204,654	14,166	218,820
Additions during the period	10,712	-	10,712
Disposals during the period	(14,897)	-	(14,897)
Property expropriated during the year	(20)	-	(20)
Returned property from a terminated lease <i>контракт</i>	175	-	175
Transfer of property held for sale to investment property (Note 6.2)	(197)	-	(197)
<b>On 31 December 2019</b>	<b>200,427</b>	<b>14,166</b>	<b>214,593</b>
Subsequent fair value measurement	(887)	(1,239)	(2,126)
<b>On 31 December 2019</b>	<b>199,540</b>	<b>12,927</b>	<b>212,467</b>
Fair value			
On 1 January 2020	<b>199,540</b>	<b>12,927</b>	<b>212,467</b>
Additions during the period	3,511	-	3,511
Sold property during the period	(147)	-	(147)
Property contributed to a subsidiary	-	(1,917)	(1,917)
Expropriated property during period	(44)	-	(44)
Classified as held-for-sale assets (Note 6.2)	(422)	-	(422)
<b>On 30 June 2020</b>	<b>202,438</b>	<b>11,010</b>	<b>213,448</b>

## 6. Property (continued)

### 6.1 Investment property (continued)

The properties within the urbanized territories include 51,526 sq.m. regulated landed properties with carrying amount as at 30 June 2020 of BGN 8,104 thousand (31 December 2019: 62,176 sq.m. with carrying amount of BGN 10,021 thousand).

#### Property in urbanized territories contributed to a subsidiary when it is established

On 12 February 2020, Advance Terrafund REIT established a special-purpose subsidiary under Article 22a of the Act on Special Purpose Investment Companies with company name ATERA 1 EOOD. The capital of the established company of 1,815,280 / one million eight hundred fifteen thousand two hundred and eighty / BGN was formed by a non-monetary contribution, having the subject of the right of ownership of real estate property located in the town of Stara Zagora, Zheleznik quarter. The value of the non-monetary contribution was determined by the expertise of three independent experts appointed by the Registry Agency.

	<u>BGN'000.</u>
Investment in a subsidiary with a property contribution	1,815
Carrying amount of a contributed property	<u>(1,917)</u>
Negative Difference in property contribution (Note 5.4)	<u><u>(102)</u></u>

#### Transfer to investment property held for sale

As of 30 June 2020, the Company has no preliminary contracts for the sale of property.

In accordance with the announcement in Note 6.2, as of December 31, 2019, the Company has signed a preliminary contract for the sale of 214 decares of agricultural land.

#### Fair value measurement

As of 31 December 2019 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 2019 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.

The valuation of the independent valuer as of 31 December 2019 is based on a combined approach with 80% weighting of the market analogue method (comparative method) and 20% weighting of the method of capitalization of the rent (based on the return on investment).

When using the market analogues method, the value of the appraised property is determined by comparing its basic characteristics with the same or similar characteristics of other similar properties, for which offer or sale prices are available. Moreover, the closer to the time of valuation the transactions for which information is made, the more reliable the market value of the appraised property will be.

The main assumptions and unobservable inputs used in estimating fair values of investment property by the market analogy method include the average values of real offer or sale prices of similar agricultural properties by area, ranging from BGN 667 per decare up to BGN 1,561 per decare. depending on the location and area of the analogues observed. For properties acquired after 1 October 2019, the purchase value is considered as fair value.

Using the method of capitalization of rent, it is assumed that a property can be rented for an infinitely long period of time. In such a case, the purchase of agricultural land is considered with investment goal from which life expectancy is expected to last forever. The present value of such an eternal asset is obtained by dividing its income from the rate of return.

## 6. Property (continued)

### 6.1 Investment property (continued)

#### Fair value measurement (continued)

The average income levels used in the assessment are BGN 40 per decare per year and the rate of return is 4%. In order to achieve maximum independence and reliability of results in the method of capitalization, the processed information on average rent levels of the contracts concluded by the Company for the agricultural year 2019 - 2020 was used.

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 properties are located on the territory of the Republic of Bulgaria.

#### Other disclosures

The Company has concluded rent and lease contracts for approximately 163,487 decares and 168,752 decares of agricultural land as of the end of 30 June 2020 and 30 June 2019, respectively. The realized rental and lease income for the period 30 June 2020 and 30 June 2019, respectively in the amount of BGN 3,317 thousand and BGN 3,272 thousand, are included in the statement of comprehensive income.

During the past period the Company realized as follows:

- contract sales under defer payment terms 371 decares of agricultural land (30 June 2019: 686 decares of agricultural land)

### 6.2 Investment property held for sale

	2020	2019
	<i>BGN'000</i>	<i>BGN'000</i>
Balance at 1 January	275	-
Property sold during the period	(275)	-
Classified as property held for sale (Note 6.1)	422	197
Subsequent fair value measurement	-	78
Balance at the end of the period	<b>422</b>	<b>275</b>

As of 30 June 2020, the Company has a preliminary contract for the sale of deferred payment for 363 decares of agricultural land( as of 31 December 2019: 214 decares). Investment properties held for sale are reported at fair value. It was determined by an independent valuer using the market analogues method, taking into account the pre-contracted contract price as the best indication of the fair value of the properties at the end of the reporting period. Changes in the fair value of property held for sale are recognized in the statement of comprehensive income.

## 7. Receivables on lease contracts and on deferred payment sales

### 7.1 Receivables on sales of property under lease contracts

#### As of 30 June 2020

	Up to 1 year	From 1 year to 5 years	Total
	<i>BGN'000</i>	<i>BGN'000</i>	<i>BGN'000</i>
Gross investments in lease contracts	276	68	344
Unearned finance income	(7)	(1)	(8)
Carrying amount	<b>269</b>	<b>67</b>	<b>336</b>

#### As of 31 December 2019

	Up to 1 year	From 1 year to 5 years	Total
	<i>BGN'000</i>	<i>BGN'000</i>	<i>BGN'000</i>
Gross investments in lease contracts	491	134	625
Unearned finance income	(22)	(3)	(25)
Carrying amount	<b>469</b>	<b>131</b>	<b>600</b>

Receivables from sales under finance lease contracts are fully invoiced.

As of 30 June 2020 the Company has finance lease contracts for 1,200 decares of agricultural land (31 December 2019: 2,161 decares).

### 7.2 Receivables on deferred payment sales

#### As of 30 June 2020

	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 deferred payment sales	3,757	5,159	8,916
Unearned finance income	(249)	(75)	(324)
Carrying amount	<b>3,508</b>	<b>5,084</b>	<b>8,592</b>

#### As of 31 December 2019

	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 deferred payment sales	4,134	5,174	9,308
Unearned finance income	(306)	(164)	(470)
Carrying amount	<b>3,828</b>	<b>5,010</b>	<b>8,838</b>

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

### 7.2 Receivables on deferred payment sales (continued)

Receivables from sales under deferred payment contracts 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 30 June 2020 the Company has deferred payment sales contracts concluded for the sale of 17,460 decares of agricultural land (31 December 2019: 17,089 decares).

For part of the deferred payment sales contract the customers have the option for earlier gaining of a legal title. This may happen between the 19th and 48th month of the contract by paying the full amount of a reduced purchase price. After the expiration of the term of the agreed options, the Company recognizes additional income from the sale of property until the full sale price is paid.

## 8. Trade and other receivables

	2020	2019
	<i>BGN'000</i>	<i>BGN'000</i>
Rent receivables, gross	4,202	2,738
<i>Impairment</i>	(443)	(444)
Rent receivables, net of impairment	3,759	2,294
Advance payments to brokers and counterparties	601	476
Court receivables	22	17
Interest receivables from deposits in BGN	2	4
Other	68	72
	<b>4,452</b>	<b>2,863</b>

The amount of past-due and impaired rent receivables is BGN 443 thousand and BGN 444 thousand as at 30 June 2020 and 31 December 2019, respectively.

Movements in the provision for the impairment of rent receivables for 2020 and for 2019 are as follows:

	2020	2019
	<i>BGN'000</i>	<i>BGN'000</i>
Balance at 1 January	444	529
Provision accrued	-	187
Provision reversed (Note 5.2)	(1)	-
Provision written off against carrying amount of receivables	-	(272)
Balance at the end of the period	<b>443</b>	<b>444</b>

As of 30 June 2020, the Company has collected in advance 47% of its receivables under the lease agreements for the current agricultural year 2019-2020 (31 December 2019: 41%).



## 8. Trade and other receivables (continued)

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

	Total <i>BGN'000</i>	Neither past due nor impaired <i>BGN'000</i>	Past due but not impaired				
			< 30 days <i>BGN'000</i>	30-60 days <i>BGN'000</i>	60-90 days <i>BGN'000</i>	90-180 days <i>BGN'000</i>	>180 days <i>BGN'000</i>
2020	3,759	2,557	-	-	-	-	1,202
2019	2,294	992	-	-	-	1,302	-

## 9. Cash and short-term deposits

	2020 <i>BGN'000</i>	2019 <i>BGN'000</i>
Cash on hand	81	82
Cash in bank accounts	2,421	1,984
Short-term deposits	25,503	26,009
	<b>28,005</b>	<b>28,075</b>

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

## 10. Share capital and reserves

### 10.1 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.

	Number of shares (thousands)	Par value (BGN)	Share capital ( BGN'000)
At 1 January 2019	85,110	1	85,110
At 31 December 2019	85,110	1	85,110
At 30 June 2020	85,110	1	85,110

## 10. Share capital and reserves (continued)

### 10.1 Share capital (continued)

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

	30 June 2020	30 June 2020	31 December 2019	31 December 2019
	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	5,374,917	6.32	5,298,255	6.23
	<b>35,466,034</b>	<b>41.67</b>	<b>35,389,372</b>	<b>41.58</b>

As of 30 June 2020 the remaining part of the share capital is held by 127 legal entities //26,81,796 shares/ and 1,769 natural persons /22,762,261 shares/, each of whom holding less than 5% of the capital.

As of 31 December 2019 the remaining part of the share capital is held by 132 legal entities /27,175,031 shares/ and 1,728 natural persons /22,545,688 shares/, each of whom holding less than 5% of the capital.

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

### 10.2 Share premium

As at 30 June 2020 the share premium amount is BGN 43,411 thousand (31 December 2019: 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.

### 10.3 Other reserves

Unclaimed and not received dividends after the expiration of the five-year prescription period are accounted for as other reserves of the Company. As of 30 June 2020 their amount is: BGN 25 thousand (31 December 2019: BGN 25 thousand).

## 11. Provisions

### 11.1 General provisions

	2020	2019
	BGN'000	BGN'000
Balance at 1 January	20	35
Provisions accrued for the period	18	20
Provisions used for the period /amounts paid/	-	(35)
Balance at the end of the period	<b>38</b>	<b>20</b>

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.

## 11. Provisions (continued)

### 11.2 Provision for dividends

In compliance with Article 10 of SPICA, 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 December 31, 2019, the Company has accrued dividend in the amount of BGN 11,478 thousand (0.1349 BGN per share), which is expected to be paid in 2020, following a resolution of the General Meeting of Shareholders.

The amount of the dividend payout for 2019 was determined as follows:

	<u>2019</u>
Book profit, as per the statement of comprehensive income	3,435
<i>Adjustment for:</i>	
Net loss from subsequent valuation of real estate (Art. 10, Para. 3, Item 1 of the ASIPC)	2,032
Profits on transactions for transfer of ownership of property (art. 10, para 3, item 2 of the ASIPC)	(3,281)
Losses on transactions for transfer of ownership of property (art. 10, Para. 3, item 2 of the ASIPC)	6
Positive difference between the selling price and the historical cost of the property (art. 10, para 3, item 3 of the ASIPC)	9,089
Negative difference between the selling price and the historical cost of the property (art. 10, para 3, item 3 of the ASIPC)	(1)
Positive difference between the discounted lease payments and the historical cost upon termination of finance lease contracts (art. 10, para 3, item 5 of ASIPC)	545
Profit from sales reported in the year of conclusion of deferred sales contracts (art. 10, Para. 3, Item 4 of the ASIPC)	(477)
Losses from sales reported in the year of conclusion of deferred sales contracts (art. 10, Para. 3, Item 4 of the ASIPC)	3
Profits from options on deferred sale contracts (art. 10, Para. 3, Item 4 of the ASIPC)	(195)
Positive difference between the discounted selling price and the historical cost upon termination of deferred payment contracts (art. 10, Para. 3, Item 5 of the ASIPC)	1,588
The carrying amount of expropriated parts of property	20
Historical cost of expropriated parts of properties	<u>(11)</u>
<i>Adjusted financial result for the period</i>	12,753
Distribution Dividend - 90% of the adjusted financial result	<u>90%</u>
<b>Dividend payable</b>	<b><u><u>11,478</u></u></b>

In 2020 and in 2019 the movement in the dividend payable can be presented as follows:

	<u>2020</u>	<u>2019</u>
	<i>BGN'000</i>	<i>BGN'000</i>
Balance at 1 January	11,506	3,721
Dividends distributed for the current year	-	11,478
Additionally accrued distributed dividends for 2018	-	342
Dividends paid, net after tax deductions	(4)	(3,970)
Tax deductions on payments of dividends	-	(57)
Dividends with expired prescription period	-	(8)
Balance at the end of the period	<b><u><u>11,502</u></u></b>	<b><u><u>11,506</u></u></b>

At the end of the reporting period, the Company has reported unpaid dividend obligation for the period from 2014 to 2018, at the total amount of BGN 24 thousand (31 December 2019: BGN 28 thousand).

## 12. Trade and other payables

	2020	2019
	<i>BGN'000</i>	<i>BGN'000</i>
Payables to the financial services company (Note 13.1)	810	976
Advance payments received for the year 2019-2020	727	1,993
Advance payments received for the year 2020-2021	378	-
Advance payments received for property sales	235	16
Payables to suppliers and brokers	31	66
Other	5	17
	<b>2,186</b>	<b>3,068</b>

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 financial services company are non-interest bearing and are normally settled on 30-day terms.

## 13. Related party disclosures

### 13.1 Financial services company consideration

The Company has concluded 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 consideration 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 of the respective property /land/, payable at the time the sale is realized, provided that the rate of return on the investment amounts to at least 15%;
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 service contract does not provide for the remuneration of the servicing company in the sale of units of a specialized subsidiary under Art 22a of SPICA. For this reason, the sale of the subsidiary Atera 1 EOOD in March 2020 did not charge or pay any remuneration to the servicing company.

The total amount of the consideration under the service contract with Karoll Finance EOOD (the financial services company in compliance with SPICA) amounts to BGN 1,346 thousand and BGN 1,538 thousand as of 30 June 2020 and 30 June 2019, respectively.

	2020	2019
	<i>BGN'000</i>	<i>BGN'000</i>
Balance at 1 January	976	1,012
Accruals during the period	1,346	1,538
Paid during the period	(1,512)	(1,691)

Balance at the end of the period	810	859
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### 13. Related party disclosures (continued)

#### 13.2 Board of Directors remuneration

The remuneration of the Board of Directors is determined by the General Assembly of the shareholders. The remuneration paid to the members of the Board of Directors till 30 June 2020 amounts to BGN 40 thousand, including social security contributions amounting to BGN 6 thousand, which is unchanged compared to 2019.

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

#### 13.3 Transactions with related parties to the financial services company Karoll Finance EOOD

As of 30 June 2020 and 30 June 2019, the Company has completed the following transactions and reports the following balances with companies that are affiliated with the Karol Finance EOOD servicing company.

#### 2020

Leases	Receivable at the beginning of the period	Accrued during the period	Received during the period	Receivable at the end of the period
	<i>BGN'000</i>	<i>BGN'000</i>	<i>BGN'000</i>	<i>BGN'000</i>
Agro Terra Sever AD	732	145	-	877
Remuss OOD	347	76	-	423

#### 2019

Leases	Receivable at the beginning of the period	Accrued during the period	Received during the period	Receivable at the end of the period
	<i>BGN'000</i>	<i>BGN'000</i>	<i>BGN'000</i>	<i>BGN'000</i>
Agro Terra Sever AD	688	292	-	980
Remuss OOD	307	136	-	443

### 14. Basic earnings per share

	2020	2019
	<i>BGN'000</i>	<i>BGN'000</i>
Profit for the year (BGN'000)	2,084	2,575
Day-to-day weighted average number of shares	85,110,091	85,110,091
Basic earnings per share (BGN)	0.0244	0.0302

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

## 15. 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>2020</u>	<u>2019</u>
	<i>BGN'000</i>	<i>BGN'000</i>
Receivables from deferred payment sales (Note 7.2)	8,592	8,838
Trade receivables, net of impairment (Note 8)	3,759	2,294
Finance lease receivables (Note 7.1)	336	600
Court receivables (Note 8)	22	17
Interest receivables from deposits in BGN (Note 8)	2	4
Cash and short-term deposits (Note 9)	<u>27,084</u>	<u>28,075</u>
	<b><u>39,795</u></b>	<b><u>39,828</u></b>

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

	<u>2020</u>	<u>2019</u>
	<i>BGN'000</i>	<i>BGN'000</i>
<b>Trade receivables, gross</b>		
Receivables on deferred payment contracts	9,047	8,838
Receivables on finance lease contracts	541	600
Rent receivables	<u>1,782</u>	<u>992</u>
<b>Total receivables neither past due, nor impaired</b>	<b><u>11,370</u></b>	<b><u>10,430</u></b>
<b>Past due, but not impaired</b>		
- past due up to 30 days	-	-
- past due between 30 – 90 days	-	-
- past due between 90 – 180 days	-	1,302
- past due between 180 – 360 days	<u>1,202</u>	<u>-</u>
<b>Total receivables past-due, but not impaired</b>	<b><u>1,202</u></b>	<b><u>1,302</u></b>
<b>Receivables individually impaired, gross</b>		
- past due over 1 year	187	187
- past due between 2 and 5 years	<u>256</u>	<u>257</u>
<b>Total receivables individually impaired</b>	<b><u>443</u></b>	<b><u>444</u></b>
<i>Less provision for impairment of receivables</i>	<u>(443)</u>	<u>(444)</u>
<b>Total receivables after impairment loss</b>	<b><u>12,687</u></b>	<b><u>11,732</u></b>

## 15. Financial risk and capital management objectives and policies (continued)

### Credit risk(continued)

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

Credit rating*	2020 <i>BGN'000</i>	2019 <i>BGN'000</i>
BBB-*	13,504	14,009
BBB-**	12,002	12,000
A-*	1,497	1,984
	<b>27,003</b>	<b>27,993</b>

\*The credit rating is prepared by Fitch Ratings.

\*\*The credit rating is prepared by Bulgarian Agency for credit ratings /BACR/.

### 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 based on contractual undiscounted payments.

At 30 June 2020

<i>Financial assets</i>	< 1 month <i>BGN'000</i>	1-3 months <i>BGN'000</i>	3 months - 1 year <i>BGN'000</i>	1 - 5 years <i>BGN'000</i>	Total <i>BGN'000</i>
Cash and short-term deposits	7,497	6,503	13,003	-	27,003
Receivables from deferred payment sales, gross	180	1,790	1,787	5,159	8,916
Trade receivables, net of impairment	1,202	-	2,557	-	3,759
Finance lease receivables, gross	59	103	114	68	344
Court receivables	22	-	-	-	22
Interest receivables from deposits	2	-	-	-	2
	<b>8,962</b>	<b>8,396</b>	<b>17,461</b>	<b>5,227</b>	<b>40,046</b>

  

<i>Financial liabilities</i>	< 1 month <i>BGN'000</i>	1-3 months <i>BGN'000</i>	3 months - 1 year <i>BGN'000</i>	1 - 5 years <i>BGN'000</i>	Total <i>BGN'000</i>
Payables to related parties	666	93	51	-	810
Payables to suppliers and brokers	31	-	-	-	31
Dividends payable	24	-	11,478	-	11,502
	<b>721</b>	<b>93</b>	<b>11,529</b>	<b>-</b>	<b>12,343</b>

## 15. Financial risk and capital management objectives and policies (continued)

### Liquidity risk (continued)

At 31 December 2019

<i>Financial assets</i>	< 1 month	1-3 months	3 months - 1 year	1 - 5 years	Total
	<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	1,984	13,009	13,000	-	27,993
Receivables from deferred payment sales, gross	160	212	3,762	5,174	9,308
Trade receivables, net of impairment	1,302	-	992	-	2,294
Finance lease receivables, gross	-	66	425	134	625
Court receivables	17	-	-	-	17
Interest receivables from deposits	-	3	1	-	4
	<b>3,463</b>	<b>13,290</b>	<b>18,180</b>	<b>5,308</b>	<b>40,241</b>

<i>Financial liabilities</i>	< 1 month	1-3 months	3 months - 1 year	1 - 5 years	Total
	<i>BGN'000</i>	<i>BGN'000</i>	<i>BGN'000</i>	<i>BGN'000</i>	<i>BGN'000</i>
Payables to related parties	892	6	78	-	976
Payables to suppliers and brokers	66	-	-	-	66
Dividends payable	28	-	11,478	-	11,506
	<b>986</b>	<b>6</b>	<b>11,556</b>	<b>-</b>	<b>12,548</b>

### 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 30 June 2020 and 31 December 2019, 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 a 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 30 June 2020 and 31 December 2019 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.



## 15. 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 ADSITS 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 (investment property held for sale are not included) is as follows:

	30 June 2020		31 December 2019	
	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	202,438	94.84	199,540	93.91
Property in regulation	8,104	3.80	10,021	4.72
Property in urbanized territories	2,906	1.36	2,906	1.37
<b>Total</b>	<b>213,448</b>	<b>100.00</b>	<b>212,467</b>	<b>100.00</b>

### 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 2019. The capital structure comprises cash and short-term deposits and equity (see Note 9 and Note 10, respectively).

	2020 BGN'000	2019 BGN'000
Total liabilities	13,726	14,594
Less: cash and short-term deposits	(27,084)	(28,075)
Net debt	(13,358)	(13,481)
Non-current liabilities	-	-
Equity	240,608	238,524
Debt-to-equity ratio (non-current liabilities to equity)	0	0

## 16. Fair value measurement

### Quantitative disclosures related to the fair value hierarchy as of 30 June 2020

	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>
<b>Assets, measured at fair value:</b>					
Investment property (Note 6.1)					
Agricultural land	30.06.2020	202,438	-	-	202,438
Property in regulation	30.06.2020	8,104	-	-	8,104
Property in urbanized territories	30.06.2020	2,906	-	-	2,906
Investment property held for sale	30.06.2020	422	-	-	422
<b>Assets, for which fair value is disclosed:</b>					
Receivables on finance lease contracts (Note 7.1)	30.06.2020	8,592	-	8,592	-
Receivables on deferred payment contracts (Note 7.2)	30.06.2020	336	-	336	-

## 16. Fair value measurement (continued)

### Quantitative disclosures related to the fair value hierarchy as of 31 December 2019

	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>
<b>Assets, measured at fair value:</b>					
Investment property (Note 6.1)					
Agricultural land	31.12.2019	199,540	-	-	199,540
Property in regulation	31.12.2019	10,021	-	-	10,021
Property in urbanized territories	31.12.2019	2,906	-	-	2,906
Investment property held for sale	31.12.2019	275	-	-	275
<b>Assets, for which fair value is disclosed:</b>					
Receivables on finance lease contracts (Note 7.1)	31.12.2019	600	-	600	-
Receivables on deferred payment contracts (Note 7.2)	31.12.2019	8,838	-	8,838	-

In 2020 and in 2019 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>	
	2020 <i>BGN'000</i>	2019 <i>BGN'000</i>	2020 <i>BGN'000</i>	2019 <i>BGN'000</i>
Receivables on deferred payment sales	8,592	8,838	8,592	8,838
Trade receivables	3,759	2,294	3,759	2,294
Receivables on finance leases	336	600	336	600
Court receivables	22	17	22	17
Interest receivables from deposits	2	4	2	4
Cash and short-term deposits	27,084	28,075	27,084	28,075

## 16. Fair value measurement (continued)

### Fair value of financial instruments (continued)

<i>Financial liabilities</i>	<i>Carrying amount</i>		<i>Fair value</i>	
	2020	2019	2020	2019
	<i>BGN'000</i>	<i>BGN'000</i>	<i>BGN'000</i>	<i>BGN'000</i>
Payables to related parties	810	976	810	976
Payables to suppliers and brokers	31	66	31	66
Dividends payable	11,502	11,506	11,502	11,506

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.

## 17. Events after the reporting date

No events have occurred after the reporting date until the date on which the present financial statements are authorized for issue, which require additional adjustments and/or disclosures in the financial statements of the Company for the period ended 30 June 2020.