



Sofia Residential A/S

Lergravsvej 59A
2300 København S

CVR no. 41 50 74 70

Annual report for 2020

Adopted at the annual general meeting on
28. juli 2021

Jens Kindberg
chairman



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Statement by management on the annual report

The supervisory and executive boards have today discussed and approved the annual report of Sofia Residential A/S for the financial year 1 July - 31 December 2020.

The annual report is prepared in accordance with the Danish Financial Statements Act.

In our opinion, the financial statements give a true and fair view of the company's financial position at 31 December 2020 and of the results of the company's operations for the financial year 1 July - 31 December 2020.

In our opinion, management's review includes a fair review of the matters dealt with in the management's review.

Management recommends that the annual report should be approved by the company in general meeting.

Copenhagen, 27. juli 2021

Executive board

Jens Kindberg

Supervisory board

Georgi Kirov
Chairman

Emil Bjørn Meincke

Jens Kindberg

Majbritt Stabell Christensen

Independent auditor's report

To the shareholder of Sofia Residential A/S

Opinion

We have audited the financial statements of Sofia Residential A/S for the financial year 1 July - 31 December 2020, which comprise a summary of significant accounting policies, income statement, balance sheet, statement of changes in equity and notes. The financial statements are prepared under the Danish Financial Statements Act.

In our opinion, the financial statements give a true and fair view of the company's financial position at 31 December 2020 and of the results of the company's operations for the financial year 1 July - 31 December 2020 in accordance with the Danish Financial Statements Act.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) and the additional requirements applicable in Denmark. Our responsibilities under those standards and requirements are further described in the "Auditor's responsibilities for the audit of the financial statements" section of our report. We are independent of the company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and the additional requirements applicable in Denmark, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Management's responsibilities for the financial statements

Management is responsible for the preparation of financial statements, that give a true and fair view in accordance with the Danish Financial Statements Act and for such internal control as management determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial statements

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

Independent auditor's report

As part of an audit conducted in accordance with ISAs and the additional requirements applicable in Denmark, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting in preparing the financial statements and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and contents of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that gives a true and fair view.

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

Statement on management's review

Management is responsible for management's review.

Our opinion on the financial statements does not cover management's review, and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read management's review and, in doing so, consider whether management's review is materially inconsistent with the financial statements or our knowledge obtained during the audit, or otherwise appears to be materially misstated.

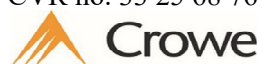
Independent auditor's report

Moreover, it is our responsibility to consider whether management's review provides the information required under the Danish Financial Statements Act.

Based on the work we have performed, we conclude that management's review is in accordance with the financial statements and has been prepared in accordance with the requirements of the Danish Financial Statements Act. We did not identify any material misstatement of management's review.

Hellerup, 27. juli 2021

CVR no. 33 25 68 76



Søren Jonassen
Statsautoriseret revisor
MNE no. mne18488

Company details

The company

Sofia Residential A/S
Lergravsvej 59A
2300 København S

CVR no.: 41 50 74 70

Reporting period: 1 July - 31 December 2020

Incorporated: 1 July 2020

Domicile: Copenhagen

Supervisory board

Georgi Kirov, chairman
Emil Bjørn Meincke
Jens Kindberg
Majbritt Stabell Christensen

Executive board

Jens Kindberg

Auditors

Crowe
Statsautoriseret Revisionsinteressentskab v.m.b.a.
Rygårds Allé 104
2900 Hellerup

Management's review

Business review

The purpose of the company is to be a holding company as well as a related company.

Financial review

The company's income statement for the year ended 31 December 2020 shows a loss of DKK 125.417, and the balance sheet at 31 December 2020 shows equity of DKK 40.474.583.

At 31 December 2020 the Company received a Group contribution of DKK 40 mio to strength the capital structure of the Company.

Significant events occurring after the end of the financial year

No events have occurred after the balance sheet date which could significantly affect the company's financial position.

Management's review

The Market

Sofia Residential A/S main activity is to ultimately own its Bulgarian subsidiary, Sofia Residential EOOD. Sofia Residential EOOD was established in 2015 and the Danish parent company, Sofia Residential A/S was established in 2020.

At year end 2020 Sofia Residential owns 111 units in the Center of Sofia, Bulgaria and the goal is to own 1,000 apartments before 2030.

Sofia Residential has been established to take advantage of one of the fastest growing real estate markets in the European Union. The price increases can be traced to the economic development of the country and the global real estate trend. Furthermore, the economic outlook of Sofia and Bulgaria in general is also supported by the European Union. The European Union is investing purposefully in Bulgaria as the European Union aims to bring Bulgaria's GDP per capita (EUR 6,800) closer to the average for the European Union (EUR 27,950). The economy therefore has solid support for future growth.

Sofia Residential is exclusively investing in new residential development projects in the center of Sofia. The management of the company has more than 12 years extensive experience in operating in Bulgaria with the first commercial activities of Sofia Residential in 2015. The company identifies, develops, and buys residential projects with the object of either selling or renting individual units.

The company's operations are ring-fenced from the vagaries of construction, as it only takes full ownership of the units post construction and when the buildings have been issued a permission to use from the municipality. Whereas the company only take limited financial risk until completion of the building hence the risk is placed with the external construction companies.

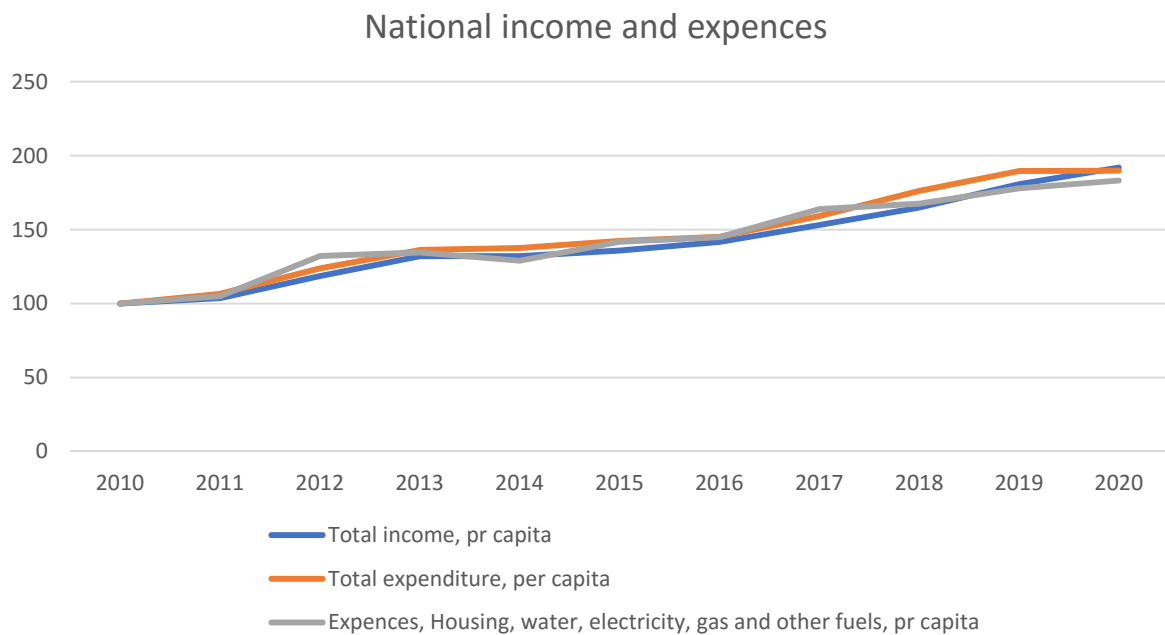
It is Sofia Residential's mission to supply high class, but affordable residential units the burgeoning middleclass and millennials in downtown Sofia.

Real estate values have been rising 7 and 9% p.a. during the recent past and whilst personal income has been rising at the same rate, only 14 pc of post-tax income is being spent on accommodation expenses, be it rent or mortgage repayment plus utility costs, compared to up to 40 in other European Capitals.



Source: NSI

Management's review



Source: NSI

Based on these numbers it appears obvious that that real estate prices do have significant upside potential compared to other economic centers in the EU where the income / housing cost equation can be up to 40 %.

Sofia Residential A/S takes a lead of its real estate projects at the planning stage, thus controlling all aspects of design as far as size and room layout is concerned.

As stated above the target customer group are local citizens in Sofia, not the luxury and tourist, therefore de-risking its investment further.

The company does not take any construction risk and contracts, once a new construction site is identified and secured, with a local developer to purchase the building when completed according to the company's instructions.

This protects the companies from a host of uncertainties such as planning risk, approval risk and local labor risks.

When the buildings are completed, the individual apartments will either be sold or rented if it deemed appropriate, this increases the company's long term portfolio holdings.

The outlook for the local economy is excellent, supported by various EU programs, with growth to significantly outstrip the more mature economies in Western Europe, giving Sofia Residential a solid environment to prosper.

Sofia, Bulgaria

Greater Sofia the capital of Bulgaria has approximately 1.7 M inhabitants, which equates to about 20% of the population of the country. It is the main driver of the Bulgarian economy.

Management's review

A young well-educated workforce has attracted significant investment from abroad, especially in the IT sector. Companies like SAP, HP, VMware, DraftKings, Luxoft, Ocado Tech, IBM and Visteon are prime examples amongst a whole slew of international firms, who have a presence in Sofia.

As a result, Sofia has been transformed over the 20 years or so and is now a vibrant, young expanding city, dominated by young professionals, which in turn has created a significant demand for modern dwellings, which has led to a 50 % increase of housing costs over the last five years albeit from a very low level. Three quarters of all housing stock in Sofia dates from communist times and is not desirable for the burgeoning middle classes anymore.



Sofia presents about 44 % of Bulgarian GDP, unemployment is around 4 %, pre covid it was 2 %, savings growth is about 9 % coupled with low mortgage rates it is safe to assume that demand for modern apartments fit for the 21st century will continue to increase.

Property prices have increased by more than 50 % over the last five years according to the National Statistics Institute, whilst spending on housing as part of income has remained steady at 14 %.

Management's review

Project: Ulitsa Pirotska 67

Size: 2,944.6 sq.m.

Status: Sale and renting



Project: Ulitsa Bregalnitsa 61

Size: 1,679 sq.m.

Status: Sale and renting



Project: Ulitsa Pirotska 93

Size: 4,337 sq.m.

Status: Construction



Management's review

Project: Ulitsa Antim I 103

Size: 1,405 sq.m.

Status: Construction



Project: Ulitsa Zaychar 220

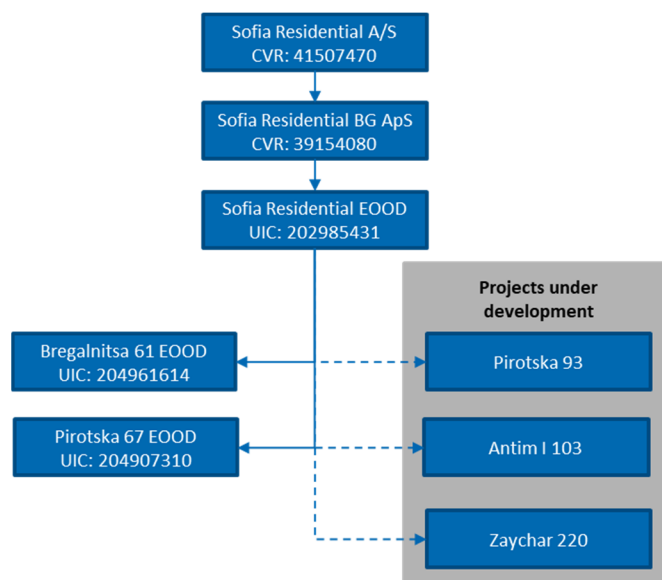
Size: 2,457 sq.m

Status: Detailed planning phase



Management's review

Company structure



Sofia Residential A/S:

- Numbers of shares: 6,000,000
- Nominal value pr share: 0,1 kr.
- Registered capital: 600,000 kr.
- Number of share classes: 1
- Votes pr share: 1
- Limitations on voting rights: No

Ownership: Each company is owned 100%

*Sofia Residential BG ApS: Will be merged into Sofia Residential A/S by 31st of December 2021.

Organizational structure

The Management is responsible for the daily operations of Sofia Residential. In addition, the Management ensures that the Company's bookkeeping follows the applicable rules and regulations, and that the administration of the Company's assets is carried out in an appropriate manner together with the professional partners.

The day-to-day work in Sofia, Bulgaria is taken care of by outsourcing partners whereas the management ensures these partners work closely together. The day-to-day operations can therefore work without interference from Denmark .

Management's review

Currently the company engages 5-7 key consultants via outsourcing partners. Besides these key employees, there are also all the employees at the janitors, real estate agents, auditors, lawyers, and construction companies.

Hiring through subcontractors instead of employment contracts de-risks the position for Company in terms of typical employer related risks (compensation, work injury, replacement, training, holiday planning etc.). Hiring through outsourcing partners also improves the ability to attract qualified staff and it makes the Company very flexible in terms of rapidly changing workload as the partners have more employees than Sofia will be able to hire within the different work functions.

With this model of outsourcing, the Company can ensure to always be able to retain the best knowledge and skills, and the model is similar to what is known from REIT (Real Estate Investment Trusts) companies listed across the world.

Consolidated financials

Consolidated financials include Sofia Residential A/S and all subsidiaries.

Sofia Residential continues to expand and develop its operation in Sofia. The strong underlying profitability is clearly shown in the significant unrealised profits in the portfolio that the company consistently generates, and in the company's ability to continuously sell its apartments at around double the purchase price.

The strategy is to continue the growth and only sell apartments in order to just balance the cash flow needs for buying new projects. The aim is not to sell-out in order to book the big unrealised accounting profit. Thus, Management finds the financial result for 2020 very satisfactory and expects an even better result for 2021.

A consolidated financial overview is shown on the following page.

Management's review

Consolidated financial overview for the group - All figures in DKK '000'

	2020	2019	2018
Net sales	4.023,4	3.882,4	1.987,6
Cost of goods sold	-2.080,3	-1.988,8	-1.005,8
Gross profit/loss	1.943,1	1.893,6	981,9
Overhead and other costs	-898,6	-581,5	-307,8
Depreciation	0	0	0
Staff costs	0	0	0
Profit/loss before interest and tax	1.044,5	1.312,0	674,1
Net financial expense	-1.979,6	-1.154,0	-1.573,0
Profit/loss before tax	-935,0	158,1	-898,9
Taxation	-19,4	-121,9	-71,7
Net accounting income (no revaluation of real estate included)	-954,5	36,1	-970,6
Unrealised profit in portfolio	19.736,4	9.119,6	5.413,6
Taxation of realising profit	-2.127,8	-602,4	-422,6
Net value generation for the year	16.654,2	8.553,3	4.020,4

	2020	2019	2018
Assets			
Investments in real estate (cost)	9.125,0	9.887,0	6.747,5
Adjustment to fair market value	63.067,1	15.296,0	6.748,8
Fixed assets	72.192,0	25.183,0	13.496,3
Receivables	1.487,7	883,9	2.665,7
Deferred expenses	647,7	1.120,1	586,7
Other	0	483,9	0
Cash	979,6	1.310,6	274,3
Current assets	3.115,0	3.798,6	3.526,8
TOTAL ASSETS	75.307,0	28.981,6	17.023,1

Gross value of real estate assets	79.958,6	53.184,0	26.840,7
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- Appraiser valuation without deduction for remaining payments

	2020	2019	2018
Equity			
Contributed capital	600,0	500,0	500,0
Retained earnings and other reserves	39.874,6	8.558,0	-1.570,2
Equity	40.474,6	9.058,0	-1.070,2
Non-current liabilities	34.208,8	19.776,9	17.956,1
Current liabilities	623,7	146,7	137,2
TOTAL EQUITY AND LIABILITIES	75.307,0	28.981,6	17.023,1

Accounting policies

The annual report of Sofia Residential A/S for 2020 has been prepared in accordance with the provisions of the Danish Financial Statements Act applying to enterprises of reporting class B, as well as provisions applying to reporting class C entities.

The annual report for 2020 is presented in DKK

As 2020 is the company's first reporting period, no comparatives have been presented.

Basis of recognition and measurement

Income is recognised in the income statement as earned, including value adjustments of financial assets and liabilities. All expenses, including amortisation, depreciation and impairment losses, are also recognised in the income statement.

Assets are recognised in the balance sheet when it is probable that future economic benefits will flow to the company and the value of the asset can be measured reliably.

Liabilities are recognised in the balance sheet when it is probable that future economic benefits will flow from the company and the value of the liability can be measured reliably.

On initial recognition, assets and liabilities are measured at cost. On subsequent recognition, assets and liabilities are measured as described below for each individual accounting item.

Certain financial assets and liabilities are measured at amortised cost using the effective interest method. Amortised cost is calculated as the historic cost less any installments and plus/less the accumulated amortisation of the difference between the cost and the nominal amount.

On recognition and measurement, allowance is made for predictable losses and risks which occur before the annual report is presented and which confirm or invalidate matters existing at the balance sheet date.

Income statement

Gross profit

Gross profit consists of other external expenses.

Other external costs

Other external costs include expenses related to administration.

Financial income and expenses

Financial income and expenses are recognised in the income statement at the amounts that relate to the financial year. Net financials include interest income and expenses, realised and unrealised capital/exchange gains and losses on securities, liabilities and foreign currency transactions, amortisation of financial assets and liabilities and surcharges and allowances under the Danish Tax Prepayment Scheme, etc.

Accounting policies

Income from investments in subsidiaries, associates and participating interests

Dividend from investments is recognised in the reporting year in which the dividend is declared.

Tax on profit/loss for the year

Tax for the year, which comprises the current tax charge for the year and changes in the deferred tax charge, is recognised in the income statement as regards the portion that relates to the profit/loss for the year and directly in equity as regards the portion that relates to entries directly in equity.

Balance sheet

Fixed asset investments

Investments in subsidiaries, associates and participating interests

Investment in subsidiaries are measured at cost. If cost exceeds the recoverable amount, a write-down is made to this lower value.

Receivables

Receivables are measured at amortised cost.

An impairment loss is recognised if there is objective evidence that a receivable or a group of receivables is impaired. If there is objective evidence that an individual receivable is impaired, an impairment loss for that individual asset is recognised.

Equity

Dividends

Proposed dividends are disclosed as a separate item under equity. Dividends are recognised as a liability when declared by the annual general meeting of shareholders.

Income tax and deferred tax

As management company, Sofia Residential A/S is liable for payment of the subsidiaries' corporate income taxes to the tax authorities.

The company and all its Danish group entities are taxed on a joint basis. The current income tax charge is allocated between the jointly taxed entities relative to their taxable income. Tax losses are allocated based on the full absorption method. The jointly taxed entities are eligible for the Danish Tax Prepayment Scheme.

Deferred tax assets, including the tax base of tax losses allowed for carry forward, are measured at the value to which the asset is expected to be realised, either as a set-off against tax on future income or as a set-off against deferred tax liabilities within the same legal tax entity. Any deferred net tax assets are measured at net realisable value.

Liabilities

Liabilities are measured at amortised cost, which is usually equivalent to nominal value.

Accounting policies

Foreign currency translation

On initial recognition, foreign currency transactions are translated applying the exchange rate at the transaction date. Foreign exchange differences arising between the exchange rates at the transaction date and at the date of payment are recognised in the income statement as financial income or financial expenses. If foreign currency instruments are considered cash flow hedges, any unrealised value adjustments are taken directly to a fair value reserve under 'Equity'.

Income statement
1 July 2020 - 31 December 2020

	<u>Note</u>	<u>2020</u> DKK
Gross profit		-18.750
Financial costs	2	<u>-106.667</u>
Profit/loss before tax		-125.417
Tax on profit/loss for the year		<u>0</u>
Profit/loss for the year		<u><u>-125.417</u></u>
 Recommended appropriation of profit/loss		
Retained earnings		<u>-125.417</u>
		<u><u>-125.417</u></u>

Balance sheet at 31 December 2020

	<u>Note</u>	<u>2020</u> DKK
Assets		
Investments in subsidiaries	3	<u>56.000.000</u>
Fixed asset investments		<u>56.000.000</u>
Total non-current assets		<u>56.000.000</u>
Other receivables		<u>600.000</u>
Receivables		<u>600.000</u>
Total current assets		<u>600.000</u>
Total assets		<u><u>56.600.000</u></u>

Balance sheet at 31 December 2020

	<u>Note</u>	<u>2020</u> DKK
Equity and liabilities		
Share capital		600.000
Retained earnings		<u>39.874.583</u>
Equity		<u>40.474.583</u>
Other payables		<u>16.125.417</u>
Total current liabilities		<u>16.125.417</u>
Total liabilities		<u>16.125.417</u>
Total equity and liabilities		<u><u>56.600.000</u></u>
Contingent liabilities	4	
Mortgages and collateral	5	

Statement of changes in equity

	<u>Share capital</u>	<u>Retained earnings</u>	<u>Total</u>
Equity at 1 July 2020	600.000	0	600.000
Net profit/loss for the year	0	-125.417	-125.417
Contribution from group	0	40.000.000	40.000.000
Equity at 31 December 2020	<u>600.000</u>	<u>39.874.583</u>	<u>40.474.583</u>

Notes

	<u>2020</u> DKK
1 Staff costs	
Average number of employees	<u>0</u>
2 Financial costs	
Other financial costs	<u>106.667</u>
	<u>106.667</u>
3 Investments in subsidiaries	
Cost at 1 July 2020	0
Additions for the year	<u>56.000.000</u>
Cost at 31 December 2020	<u>56.000.000</u>
Revaluations at 1 July 2020	<u>0</u>
Revaluations at 31 December 2020	<u>0</u>
Carrying amount at 31 December 2020	<u>56.000.000</u>

Investments in subsidiaries are specified as follows:

<u>Name</u>	<u>Registered office</u>	<u>Ownership interest</u>
Sofia Residential BG ApS	Copenhagen	100%

Notes

4 Contingent liabilities

The company has no contingent liabilities.

5 Mortgages and collateral

The company has no mortgages and collateral.