Bulgarian Real Estate Fund

Bulgarian Real Estate Fund ADSIC

ANNUAL FINANCIAL STATEMENTS

31 December 2012

BULGARIAN REAL ESTATE FUND ADSIC

Contents

BULGARIAN REAL ESTATE FUND ADSIC

General Information

Directors
Todor Breshkov, Chairman of the Board of Directors
Mario Al-Jebouri, Deputy Chairman of the Board of Directors
Chavdar Donkov, Member of the Board of Directors
Nikolay Skarlatov, Executive Director

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

Depository bank
DSK Bank AD

Brokers
Settle Real Estate OOD

Management Company
Real Estate Management (MNI) OOD

Auditor
Ernst & Young Audit OOD
Polygraphia Office Center
47A, Tsarigradsko Shose Blvd., fl.4
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Independent auditors' report
To the shareholders
of Bulgarian Real Estate Fund ADSIC

We have audited the accompanying financial statements of Bulgarian Real Estate Fund ADSIC, which comprise the statement of financial position as of 31 December 2012, and the income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

Management is responsible for the preparation and presentation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards, as adopted for use in the European Union, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of financial statements that give a true and fair view 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of Bulgarian Real Estate Fund ADSIC as of 31 December 2012, and of its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards, as adopted for use in the European Union.

Ernst & Young

Ernst & Young Audit OOD

Sofia, Bulgaria

18 March 2013

BULGARIAN REAL ESTATE FUND ADSIC
INCOME STATEMENT
For the year ended 31 December 2012

	Notes	2012	2011
		EUR thousand	*EUR thousand*
Income			
Rental income	5.1	1,090	2,647
Sale of properties	5.2	-	28,001
Interest income	3	1,071	242
Gain on derivative financial instrument	12	52	9
Other income	5.4	195	58
Total income		**2,408**	**30,957**
Expenses			
Management and success fees	15.1	(564)	(2,026)
Interest expenses		(234)	(566)
Direct operating expenses arising from properties	5.5	(197)	(354)
Net losses from fair value adjustments to investment properties	6.1, 6.3	(144)	(868)
Directors' remunerations and Board expenses	15.2	(40)	(25)
Employee benefit costs		(14)	(14)
Foreign exchange loss		(1)	(2)
Carrying amount of properties sold	6.1, 6.2	-	(20,287)
Agency fees and local taxes related to sale of properties		-	(539)
Other expenses	5.6	(335)	(518)
Total expenses		**(1,529)**	**(25,199)**
Profit for the year		**879**	**5,758**
Earnings per share – basic and diluted	16	**0.014**	**0.095**
Dividend per share , gross (legally required)	13	**0.015**	**0.109**
Dividend per share , gross (proposed by management)	13	**0.033**	**0.109**

Executive Director
Nikolay Skarlatov

Preparer
Alexander Georgiev

The accompanying notes to the financial statements on pages 8 to 39 form an integral part of these financial statements.

BULGARIAN REAL ESTATE FUND ADSIC
STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31 December 2012

	2012	2011
	EUR thousand	*EUR thousand*
Profit for the year	**879**	**5,758**
Other comprehensive income for the year	-	-
Total comprehensive income for the year	**879**	**5,758**

Executive Director
Nikolay Skarlatov

Preparer
Alexander Georgiev

The accompanying notes to the financial statements on pages 8 to 39 form an integral part of these financial statements.

BULGARIAN REAL ESTATE FUND ADSIC
STATEMENT OF FINANCIAL POSITION
As at 31 December 2012

	Notes	2012	2011
		EUR thousand	*EUR thousand*
ASSETS			
Non-current assets			
Investment property	6.1	25,372	25,328
Equipment		3	9
		25,375	**25,337**
Current assets			
Investment property held for sale	6.3	1,223	1,373
Trade and other receivables	8	525	1,355
Deferred expenses	7	5	5
Cash and cash equivalents	9	14,851	21,169
		16,604	**23,902**
TOTAL ASSETS		**41,979**	**49,239**
Equity			
Share capital	10.1	30,907	30,907
Share premium	10.2	5,016	5,016
Retained earnings		1,083	1,124
Total equity		**37,006**	**37,047**
Non-current liabilities			
Long-term interest bearing loans	11	2,721	3,530
Derivative financial liability	12	290	342
		3,011	**3,872**
Current liabilities			
Current portion of long-term interest bearing loans	11	823	782
Provision for dividends due	13	920	6,581
Trade and other payables	14	219	957
		1,962	**8,320**
Total liabilities		**4,973**	**12,192**
TOTAL EQUITY AND LIABILITIES		**41,979**	**49,239**

Executive Director
Nikolay Skarlatov

Preparer
Alexander Georgiev

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BULGARIAN REAL ESTATE FUND ADSIC
STATEMENT OF CHANGES IN EQUITY
For the year ended 31 December 2012

	Share capital (Note 10.1)	Share premium (Note 10.2)	Retained earnings	Total
	EUR thousand	*EUR thousand*	*EUR thousand*	*EUR thousand*
At 1 January 2011	**30,907**	**5,016**	**1,947**	**37,870**
Profit for the year	-	-	5,758	5,758
Other comprehensive income	-	-	-	-
Total comprehensive income	-	-	5,758	5,758
Equity dividends (Note 13)	-	-	(6,581)	(6,581)
At 31 December 2011	**30,907**	**5,016**	**1,124**	**37,047**
At 1 January 2012	**30,907**	**5,016**	**1,124**	**37,047**
Profit for the year	-	-	879	879
Other comprehensive income	-	-	-	-
Total comprehensive income	-	-	879	879
Equity dividends (Note 13)	-	-	(920)	(920)
At 31 December 2012	**30,907**	**5,016**	**1,083**	**37,006**

Executive Director
Nikolay Skarlatov

Preparer
Alexander Georgiev

The accompanying notes to the financial statements on pages 8 to 39 form an integral part of these financial statements.

BULGARIAN REAL ESTATE FUND ADSIC
STATEMENT OF CASH FLOWS
For the year ended 31 December 2012

	Notes	2012	2011
		EUR thousand	*EUR thousand*
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit for the year		**879**	**5,758**
Adjustments to reconcile profit for the year to net cash flows			
Non-cash:			
Net losses from fair value adjustments to properties	6.1, 6.3	144	868
Interest income		(1,071)	(242)
Interest expense		234	566
Gain on derivative financial instrument	12	(52)	(9)
Gain on sale of properties		-	(7,714)
Write off of equipment and intangibles	5.6	-	8
Write off of properties	5.6	6	194
Depreciation expense	5.6	3	6
Amortization of initial direct fees on operating lease	6.1	-	18
Impairment of receivables	5.6	259	20
Release of accruals for liabilities	5.4	(176)	-
Working capital adjustments:			
Decrease / (Increase) in trade and other receivables		792	(398)
(Decrease) / Increase in trade and other payables		(578)	203
Decrease in deferred expenses		-	373
Net cash flows from / (used in) operating activities		**440**	**(349)**
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of properties		(38)	(187)
Purchase of equipment		(2)	(1)
Proceeds from sale of properties		-	28,001
Interest received		850	95
Net cash flows from investing activities		**810**	**27,908**
CASH FLOWS FROM FINANCING ACTIVITIES			
Repayment of borrowings		(770)	(5,264)
Interest paid		(232)	(496)
Equity dividends paid		(6,566)	(1,225)
Net cash flows used in financing activities		**(7,568)**	**(6,985)**
Net (decrease) / increase in cash and cash equivalents		(6,318)	20,574
Cash and cash equivalents at 1 January		21,169	595
Cash and cash equivalents at 31 December	9	**14,851**	**21,169**

Executive Director
Nikolay Skarlatov

ФОНД ЗА НЕДВИЖИМИ ИМОТИ БЪЛГАРИЯ * АДСИЦ * СОФИЯ

Preparer
Alexander Georgiev

The accompanying notes to the financial statements on pages 8 to 39 from an integral part of these financial statements.

1. Corporate Information

Bulgarian Real Estate Fund (BREF or the Fund) was incorporated on 11 December 2004 under the Act on Special Investment Purpose Companies (ASIPC). The duration of the Fund is 15 years and expires in 2019. This term can be extended by shareholders' decision.

The registered office of the Fund is located at 3A Nikolay Haytov Str., fl 1, Sofia, Bulgaria.

BREF is a Real Estate Investment Trust (REIT) investing in diversified portfolio of office, retail, industrial, residential and agricultural real estate on the territory of Bulgaria.

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

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

The Fund employs one individual who deals with investors' relations. The Fund's Board consists of four directors. The Fund's operations are managed by a management company, a related party, in accordance with the requirements of ASIPC and management agreement as disclosed in Note 15 below.

These financial statements for the year ended 31 December 2012 were authorized for issue in accordance with a resolution of the Board of Directors on 18 March 2013.

2.1. Basis of preparation

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

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

Statement of compliance

The financial statements of Bulgarian Real Estate Fund have been prepared in accordance with the International Financial Reporting Standards (IFRS), as adopted for use in the European Union (EU).

These financial statements have been prepared for the use of shareholders and foreign investors.

BREF has presented a separate set of statutory financial statements in Bulgarian, expressed in Bulgarian leva, in accordance with IFRS, as adopted for use in the EU. The statutory financial statements were authorized for issue by the Board of Directors on 18 March 2013.

2.2. Summary of the significant accounting policies

a) Foreign currency translation

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

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

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

b) Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Fund and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable, excluding discounts, rebates, and other sales taxes or duty. The Fund assesses its revenue arrangements against specific criteria in order to determine whether it is acting as a principal or agent. The Fund concluded that it is acting as a principal in all of its revenue arrangements expect for those related to provision of auxiliary services to tenants such as electricity, water, heating, cleaning, etc. It is not within the business strategy of the Fund to provide such type of services and thus, the substance of those arrangements is that the Fund acts as an agent of the ultimate provider of the service vis-à-vis its tenants. Thus, the Fund presents the expenses related to those services, net of service charge received from tenants. The following specific recognition criteria must also be met before revenue is recognised:

Sale of properties
Income from sale of properties is recognized when control and significant risks and rewards of ownership are transferred to the buyer, usually at completion of property developed for sale (trading properties) or upon transfer of legal title of investment property, including investment property held for sale (i.e. not subject to development prior to sale).

Interest income
Revenue is recognised as interest accrues (using the effective interest method that is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset).

Rental income
Rental income arising from operating leases on properties is accounted for on a straight line basis over the lease terms. Lease incentives provided for the agreement of a new or renewed operating lease are presented as deferred expenses in the statement of financial position and recognised in profit or loss as a reduction of rental income over the lease term, on a straight line basis.

c) Expenses

Expenses are accounted for on an accrual basis. Expenses are charged to the income statement except for expenses incurred on the acquisition of an investment and other properties that are included in the cost of that property and transaction costs for share capital increase which are deducted directly from equity.

2.2. Summary of the significant accounting policies (continued)

d) Taxes

Income tax
The Fund being a Real Estate Investment Trust is not subject to corporate income tax in accordance with the Bulgarian Corporate Income Tax Act.

Value Added Tax
Revenues, expenses and assets are recognized net of the amount of Value Added Tax (VAT) except :
- where the VAT incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case the VAT is recognized as part of the cost of acquisition of the asset or other operating expense; and
- receivables and payables that are stated with the amount of VAT included.

The net amount of VAT recoverable from, or payable to, the taxation authority is included as part of the receivables or payables in the statement of financial position.

e) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale and is not measured at fair value are capitalised as part of the cost of the respective assets. All other borrowing costs are expensed in the period they occur. Borrowing costs consist of interest and other costs that the Fund incurs in connection with the borrowing of funds.

f) Earnings per share

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

g) Financial instruments – recognition and measurement

- **Financial assets**

Initial recognition

Financial assets within the scope of IAS 39 are classified as either financial assets at fair value through profit or loss, loans and receivables, held to maturity investments, available for sale financial assets, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial assets are recognised initially at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

All regular way purchases and sales of financial assets are recognised on the trade date, which is the date that the Fund commits to purchase the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

The Funds financial assets include cash and short-terms deposits and trade and other receivables.

2.2. Summary of the significant accounting policies (continued)

g) Financial instruments – recognition and measurement (continued)

- **Financial assets (continued)**

Subsequent measurement

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

Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement loans and receivables are subsequently carried at amortised cost using the effective interest method less impairment. Amortised cost is calculated taking into account any discount or premium on acquisition and fee or costs that are an integral part of the effective interest rate. Gains and losses are recognised in the income statement when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Derecognition

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised when:

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

Where the Fund has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Fund's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Fund could be required to repay.

Where continuing involvement takes the form of a written and/or purchased option (including a cash settled option or similar provision) on the transferred asset, the extent of the Fund's continuing involvement is the amount of the transferred asset that the Fund may repurchase, except that in the case of a written put option (including a cash settled option or similar provision) on an asset measured at fair value, the extent of the Fund's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Impairment of financial assets

The Fund assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

2.2. Summary of the significant accounting policies (continued)

g) Financial instruments – recognition and measurement (continued)

- **Financial assets (continued)**

Impairment of financial assets (continued)

Assets carried at amortised cost
If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced through use of an allowance account. The amount of the loss shall be recognised in the income statement.

The Fund first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in profit or loss, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

- **Financial liabilities**

Initial recognition

Financial liabilities within the scope of IAS 39 are classified as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Fund determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognised initially at fair value and in the case of loans and borrowings, plus directly attributable transaction costs.

The Fund's financial liabilities include trade payables, interest bearing loans and derivative financial instruments.

Subsequent measurement

The measurement of financial liabilities depends on their classification as follows:

Loans and borrowings
After initial recognition, interest bearing loans and borrowings are subsequently measured at amortised cost using the effective interest rate method. Gains and losses are recognised in the income statement when the liabilities are derecognised as well as through the effective interest rate method amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fee or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in interest expenses in the income statement.

2.2. Summary of the significant accounting policies (continued)

g) Financial instruments – recognition and measurement (continued)

- **Financial liabilities (continued)**

Subsequent measurement (continued)

Financial liabilities at fair value through profit or loss
Financial liabilities at fair value through profit or loss includes financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit and loss.

Financial liabilities are classified as held for trading if they are acquired for the purpose of selling in the near term. Derivatives, including separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on liabilities held for trading are recognised in the income statement.

Where a contract contains one or more embedded derivatives, the entire hybrid contract may be designated as a financial liability at fair value through profit or loss, except where the embedded derivative does not significantly modify the cash flows or it is clear that separation of the embedded derivative is prohibited.

Financial liabilities may be designated at initial recognition as at fair value through profit or loss if the following criteria are met: (i) the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the liabilities or recognising gains or losses on them on a different basis; (ii) or the liabilities are part of a Fund of financial liabilities which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management strategy; (iii) or the financial liability contains an embedded derivative that would need to be separately recorded. As at 31 December 2012, no financial liabilities have been designated as at fair value through profit and loss (2011: Nil).

Derecognition

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

Where 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 a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the income statement.

h) Derivative financial instruments

The Fund uses derivative financial instruments such as interest rate swaps to hedge its risks associated with interest rate. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Any gains or losses arising from changes in fair value on derivatives during the year are taken directly to the income statement.

Details on the fair value estimate of interest rate swap contracts are provided in Note 19.

2.2. Summary of the significant accounting policies (continued)

i) 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.

j) Fair value of financial instruments

The fair value of financial instruments that are traded in active markets at each reporting date is determined by reference to quoted market prices or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs.

For financial instruments not traded in an active market, the fair value is determined using appropriate valuation techniques. Such techniques may include using recent arm's length market transactions; reference to the current fair value of another instrument that is substantially the same; discounted cash flow analysis or other valuation models.

An analysis of fair values of financial instruments and further details as to how they are measured are provided in Note 19.

k) Share capital

Share capital represents the par value of shares issued and paid by the shareholders. Any proceeds in excess of par value are recorded in share premium.

l) Investment properties

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

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

The Fund transfers a property from investment property to inventories (trading properties) when, and only when, there is a change in use, evidenced by commencement of development with a view of sale.

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

2.2. Summary of the significant accounting policies (continued)

m) Trading properties

Trading properties (inventories) are valued at lower of cost and net realizable value. The cost is determined based on specific identification of individual project cost. Net realizable value is the estimated selling price in the ordinary course of business less estimated cost of completion and the estimated cost necessary to make the sale.

n) Investment properties held for sale

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

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

o) Leases

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement at inception date of whether the 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.

Fund as a lessor
Leases where the Fund does not transfer substantially all the risks and benefits of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same bases as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

p) Equipment

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

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

	2012	2011
Furniture and fixtures	5 years	5 years
Computers	2 years	2 years
Other assets	6 - 7 years	6 - 7 years

An item of plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the income statement in the year the asset is derecognised.

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

2.2. Summary of the significant accounting policies (continued)

p) Equipment (continued)

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

For 2012 and 2011 the Fund did not report any significant items of equipment.

q) Impairment of non-financial assets

The Fund assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Fund makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset or cash-generating unit exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used. These calculations are corroborated by valuation multiples or available fair value indicators.

Impairment losses are recognized as other expenses in the income statement.

For non-financial assets, an assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Fund makes an estimate of recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the income statement.

r) Cash and cash equivalents

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

For the purpose of the statement of cash flows, cash and cash equivalents consist of cash and short-term deposits as defined above.

s) Provisions

General

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

2.2. Summary of the significant accounting policies (continued)

s) Provisions (continued)

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

Based on the Fund's financial performance for the reporting year, consideration has been given to dividend distribution based on operational and legal considerations. As a result, the Fund recognised provision for dividends due for its present legal obligation to distribute dividends at the reporting date.

2.3 Changes in accounting policy and disclosures

New and amended standards and interpretations

The accounting policies adopted are consistent with those of the previous financial year, except for the following new and amended IFRS and IFRIC interpretations adopted as of 1 January 2012:

- IAS 12 *Income Taxes (Amendment) - Recovery of Underlying Assets*
- IFRS 7 *Financial Instruments: Disclosures (Amendment)*
- IFRS 1 *First-time Adoption of International Financial Reporting Standards (Amendment) – Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters*

When adoption of the standard or interpretation is deemed to have an impact on the financial statements or performance of the Fund, its impact is described below:

IAS 12 *Income Taxes (Amendment)* - Recovery of Underlying Assets
The amendment clarified the determination of deferred tax on investment property measured at fair value. The amendment introduces a rebuttable presumption that deferred tax on investment property measured using the fair value model in IAS 40 should be determined on the basis that its carrying amount will be recovered through sale. Furthermore, it introduces the requirement that deferred tax on non-depreciable assets that are measured using the revaluation model in IAS 16 always be measured on a sale basis of the asset. The amendment has no effect on the financial position or performance of the Fund.

IFRS 7 *Financial Instruments: Disclosures (Amendment)*
The amendment requires additional disclosure about financial assets that have been transferred but not derecognised to enable the user of the financial statements to understand the relationship with those assets that have not been derecognised and their associated liabilities. In addition, the amendment requires disclosures about continuing involvement in derecognised assets to enable the user to evaluate the nature of, and risks associated with, the entity's continuing involvement in those derecognised assets. The amendment has only disclosure effects. The amendment has no impact on the Fund's financial position or performance.

IFRS 1 Severe *Hyperinflation and Removal of Fixed Dates for First-Time Adopters (Amendment)*
The amendment introduces a new deemed cost exemption for entities that have been subject to severe hyperinflation. When an entity's date of transition to IFRS is on, or after, the functional currency "normalisation" date, the entity may elect to measure all assets and liabilities, held before the functional currency "normalisation" date, at fair value on the date of transition to IFRS. Additionally, the IASB removed the legacy fixed dates included in IFRS 1 for derecognition and day one gain or loss transactions and replaced those dates with the date of transition to IFRS. As the Fund is not a first time adopter, this amendment does not have an impact on its financial position or performance.

3. Significant accounting judgments, estimates and assumptions

Judgments

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

Operating Lease Commitments–Fund as a Lessor
The Fund has entered into leases on its commercial properties. The Fund has determined that it retains all the significant risks and rewards of ownership of these properties and so accounts for them as operating leases. Details are provided in note 17.

Transfers from investment properties
Following its investment objectives (as disclosed in Note 1) the Fund classifies properties as investment properties at recognition. Subsequently, the management applies judgement as to transfers from investment properties depending on its intentions for the future use/realization of the property and its condition (in the process of development or available for immediate sale). Significant accounting policies for transfers to/from investment properties are presented in Note 2.2, l) above.

Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amount of assets within the next financial year are discussed below.

Impairment of receivables
Management maintains an allowance for impairment of receivables to account for estimated losses resulting from the inability of customers to make required payments. When evaluating the adequacy of the impairment of receivables, management bases its estimates on the ageing of accounts receivable, specific economic conditions of the customer, its credit worthiness and changes in customer payment terms. If the financial condition of customers were to deteriorate, actual write-offs might be higher than expected. As of 31 December 2012 the best estimate of the impairment of receivables is EUR 367 thousand (2011: EUR 115 thousand). Further details are provided in Note 8.

Fair Value of Investment Properties
The investment properties and properties held for sale have been fair valued by accredited external valuer based on income or market approach. Considering the real estate market stagnation, the estimated properties' fair values were not always supported by comparable market data. The sensitivity of fair valuation to reasonably expected changes in the most significant assumptions is provided in Note 6.

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

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

IAS 1 ***Presentation of Financial Statements (Amendment)*** **- Presentation of Items of Other Comprehensive Income**
The amendment is effective for annual periods beginning on or after 1 July 2012. The amendments to IAS 1 change the grouping of items presented in OCI. Items that could be reclassified (or 'recycled') to profit or loss at a future point in time (for example, upon derecognition or settlement) would be presented separately from items that will never be reclassified. The amendment affects presentation only and has there no impact on the Fund's financial position or performance.

IAS 19 ***Employee Benefits (Revised)***
The revised standard is effective for annual periods beginning on or after 1 January 2013. The IASB has issued numerous amendments to IAS 19. These range from fundamental changes such as removing the corridor mechanism and the concept of expected returns on plan assets to simple clarifications and re-wording. The Fund is in the process of assessing the impact of these amendments on its financial position or performance.

IAS 27 ***Separate Financial Statements (Revised)***
The revised standard, as endorsed by EU, is effective for annual periods beginning on or after 1 January 2014. As a consequence of the new IFRS 10 and IFRS 12, what remains of IAS 27 is limited to accounting for subsidiaries, jointly controlled entities, and associates in separate financial statements. As the Fund does not have any investments in subsidiaries, associates or joint ventures, the revised standard will not impact its financial position and performance.

IAS 28 ***Investments in Associates and Joint Ventures (Revised)***
The revised standard, as endorsed by EU, is effective for annual periods beginning on or after 1 January 2014. As a consequence of the new IFRS 11 and IFRS 12, IAS 28 has been renamed IAS 28 Investments in Associates and Joint Ventures, and describes the application of the equity method to investments in joint ventures in addition to associates. As the Fund does not have any investments in associates/joint ventures, the revised standard will not impact its financial position and performance.

IAS 32 ***Financial Instruments (Amendment): Presentation*** **- Offsetting Financial assets and Financial Liabilities**
The amendment is effective for annual periods beginning on or after 1 January 2014. This amendment clarifies the meaning of "currently has a legally enforceable right to set-off' and also clarifies the application of the IAS 32 offsetting criteria to settlement systems. The Fund is in the process of assessing the impact of the amendment on its financial position or performance.

IFRS 1 ***Government Loans – Amendments to IFRS 1***
The amendment is effective for annual periods beginning on or after 1 January 2013. The IASB has added an exception to the retrospective application of IFRS 9 Financial Instruments (or IAS 39 Financial Instruments: Recognition and Measurement, as applicable) and IAS 20 Accounting for Government Grants and Disclosure of Government Assistance as regards measurement of government loans with a below market rate of interest. As the Fund is not a first time adopter, the amendment will not have an impact on its financial position or performance. This amendment has not yet been endorsed by the EU.

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

IFRS 7 ***Financial Instruments: Disclosures (Amendment)*** **- Offsetting Financial Assets and Financial Liabilities**
The amendment is effective for annual periods beginning on or after 1 January 2013. It requires an entity to disclose information about rights of set-off and related arrangements (e.g., collateral agreements). The disclosures would provide users with information that is useful in evaluating the effect of netting arrangements on an entity's financial position. The amendments to IFRS 7 are to be retrospectively applied. The Fund is in the process of assessing the impact of the amendment on its financial position or performance.

IFRS 9 ***Financial Instruments: Classification and Measurement***
The new standard is effective for annual periods beginning on or after 1 January 2015. IFRS 9 as issued reflects the first phase of the IASBs work on the replacement of IAS 39 and applies to classification and measurement of financial assets as defined in IAS 39. Phase I of IFRS 9 will have a significant impact on (i) the classification and measurement of financial assets and (ii) a change in reporting for those entities that have designated financial liabilities using the FV option. In subsequent phases, the IASB will address hedge accounting and impairment of financial assets. The Fund is in the process of assessing the impact of the new standard on its financial position or performance. The Standard has not yet been endorsed by EU.

IFRS 10 ***Consolidated Financial Statements***
The new standard, as endorsed by EU, is effective for annual periods beginning on or after 1 January 2014. IFRS 10 replaces the portion of IAS 27 *Consolidated and Separate Financial Statements* that addresses the accounting for consolidated financial statements. It also includes the issues raised in SIC-12 *Consolidation – Special Purpose Entities*. IFRS 10 establishes a single control model that applies to all entities including special purpose entities. The changes introduced by IFRS 10 will require management to exercise significant judgment to determine which entities are controlled, and therefore, are required to be consolidated by a parent, compared with the requirements that were in IAS 27. As the Fund does not have any subsidiaries and does not prepare Consolidated Financial Statements, the standard will not impact its financial position or performance.

IFRS 11 ***Joint Arrangements***
The new standard, as endorsed by EU, is effective for annual periods beginning on or after 1 January 2014. IFRS 11 replaces IAS 31 *Interests in Joint Ventures* and SIC-13 *Jointly-controlled Entities — Non-monetary Contributions by Venturers*. IFRS 11 changes the accounting for joint arrangements by moving from three categories under IAS 31 to the following two categories – joint operation and joint venture. Joint ventures are accounted for using the equity method. The option in IAS 31 to account for joint ventures (as defined in IFRS 11) using proportionate consolidation has been removed. As the Fund does not have any joint arrangements, the standard will not impact its financial position or performance.

IFRS 12 ***Disclosure of Interests in Other Entities***
The new standard, as endorsed by EU, is effective for annual periods beginning on or after 1 January 2014. IFRS 12 includes all the disclosure requirements that were previously in IAS 27 related to consolidated financial statements, as well as all the disclosures that were previously included in IAS 31 *Interests in Joint Ventures* and IAS 28 *Investments in Associates.* These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates, and structured entities. A number of new and more extensive qualitative and quantitative disclosures are also required. As the Fund does not have any interest in other entities, the standard will not impact its financial position and performance.

IFRS 13 ***Fair Value Measurement***
The new standard, as endorsed by EU, is effective for annual periods beginning on or after 1 January 2014. IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS when fair value is required or permitted. The Fund is in the process of assessing the impact of the new standard on its financial position or performance.

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

IFRIC 20 *Stripping Costs in the Production Phase of a Surface Mine*
The interpretation is effective for annual periods beginning on or after 1 January 2013. This interpretation only applies to stripping costs incurred in surface mining activity during the production phase of the mine ('production stripping costs'). Costs incurred in undertaking stripping activities are considered to create two possible benefits a) the production of inventory in the current period and/or b) improved access to ore to be mined in a future period (striping activity asset). Where cost cannot be specifically allocated between the inventory produced during the period and the stripping activity asset, IFRIC 20 requires an entity to use an allocation basis that is based on a relevant production measure. The Fund is in the process of assessing the impact of the new interpretation on its financial position or performance.

Improvements to IFRS – 2009 – 2011 Cycle

In the 2009-2011 annual improvements cycle, the IASB issued six amendments to five standards which are applicable to annual periods beginning on or after 1 January 2013. Summary of amendments and related standards are provided below:

- IFRS 1 First-time adoption of IFRS – repeated application of IFRS and borrowing cost exemption
- IAS 1 Presentation of Financial Statements – clarification on the requirements for comparative information
- IAS 16 Property, Plant and Equipment – classification of servicing equipment
- IAS 32Financial Instruments: Presentation – Tax effects of distributions to holders of equity instruments
- IAS 34 Interim Financial Reporting – Interim financial reporting and segment information for total assets and liabilities

The Fund is in the process of assessing the impact of the amendments on its financial statements. The improvements to IFRS – 2009 – 2011 Cycle have not yet been endorsed by EU yet.

5. Income and expenses

5.1. Rental income

	2012	2011
	EUR thousand	*EUR thousand*
Rental income from investment properties	1,090	1,245
Rental income from trading property	-	1,871
Amortization of operating lease incentives and initial direct costs (Note 7)	-	(469)
	1,090	**2,647**

5.2. Proceeds from sale of properties

	2012	2011
	EUR thousand	*EUR thousand*
Sale of trading property	-	23,002
Sale of investment property (agricultural land)	-	4,853
Sale of investment properties (non-agricultural land)	-	146
	-	**28,001**

5.3. Income from external customers

a) Geographical information

The Fund's rental income and income from sale of properties are generated from external customers located in Bulgaria.

b) Information for major customers

	Type of income	2012	2011
		EUR thousand	*EUR thousand*
Customer 1	Rent	1,082	1,082
Customer 2	Sale of property	-	23,002
Customer 3	Sale of property	-	4,852
Customer 4	Rent	-	1,326

According to IFRS 8 "Operating Segments" BREF designates a single external customer as a major customer if it generates 10% or more of its revenue.

5. Income and expenses (continued)

5.4. Other income

	2012	2011
	EUR thousand	*EUR thousand*
Release of accrual for claims (Note 14)	176	-
Overpaid taxes and penalty claims	7	49
Other income	12	9
	195	**58**

5.5. Direct operating expenses arising from properties

	2012	2011
Direct operating expenses arising from properties that generated rental income	*EUR thousand*	*EUR thousand*
Investment properties	(110)	(115)
Trading properties	-	(131)
	(110)	**(246)**
Direct operating expenses arising from properties that did not generate rental income		
Investment properties	(63)	(84)
Investment property held for sale	(24)	(24)
	(87)	**(108)**
Total direct operating expenses arising from properties	**(197)**	**(354)**

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

	2012	2011
	EUR thousand	*EUR thousand*
Local taxes and fees	(128)	(232)
Repair and maintenance	(44)	(46)
Fees for sundry services	(25)	(76)
	(197)	**(354)**

5. Income and expenses (continued)

5.6. Other expenses

	2012	2011
	EUR thousand	*EUR thousand*
Impairment of trade receivables (Note 8)	(259)	(20)
Fees for sundry services	(61)	(57)
Properties written off (note 6.1)	(6)	(194)
Depreciation	(3)	(6)
Bank charges	(2)	(200)
Value added tax not subject to refund, net	(1)	(26)
Write off of equipment and intangibles related to sold properties	-	(8)
Accrued expenses on court cases for properties	-	(2)
Other	(3)	(5)
	(335)	**(518)**

6. Properties

6.1. Investment property

	Agricultural land	Non-agricultural land and buildings	Total
	EUR thousand	*EUR thousand*	*EUR thousand*
At 1 January 2011	4,391	26,504	30,895
Additions	1	48	49
Net gains/(losses) from fair value adjustments	6	(865)	(859)
Amortization of initial direct costs related to operating leases	(18)	-	(18)
Written off (Note 5.6)	(7)	(187)	(194)
Disposals	(4,275)	(270)	(4,545)
At 31 December 2011	**98**	**25,230**	**25,328**
At 1 January 2012	98	25,230	25,328
Additions	-	38	38
Net gains from fair value adjustments	2	10	12
Written off (Note 5.6)	(6)	-	(6)
At 31 December 2012	**94**	**25,278**	**25,372**

6. Properties (continued)

6.1. Investment Property (continued)

Fair valuations

The Fund engaged an accredited external valuer to fair value its investment properties. The effective date of the valuations was 31 December 2012. Fair values were estimated by applying the following valuation methods:

- capitalization of income method was used to value rental generating commercial properties with long-term lease arrangements in place. It was considered an appropriate approach as high degree of detail is available on the expected cash flow and yield (capitalization rate);

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

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

	2012	2011
	EUR thousand	*EUR thousand*
Investment properties valued under capitalization of income method	10,818	10,815
Investments properties valued under market comparables method	14,554	14,513
Total investment properties at fair value	**25,372**	**25,328**

Significant assumptions

The significant assumptions used in the valuations under the capitalization of income method are set out below:

	Measure	Commercial Property 1	Commercial Property 2
2012			
Gross rent income	EUR per month	63,595	44,340
Capitalization rate	%	10.0%	10.0%
Vacancy risk	% of gross rent income	10.0%	10.0%
2011			
Gross rent income	EUR per month	63,595	44,340
Capitalization rate	%	10.0%	10.0%
Vacancy risk	% of gross rent income	10.0%	10.0%

Due to the long-term operating lease contracts for the two commercial properties and no significant change in the real estate market environment there were no changes in the gross rent and capitalization rate assumptions compared to prior period.

6. Properties (continued)

6.1. Investment property (continued)

Sensitivity analysis

The table below presents a sensitivity analysis on several major investment property valuation assumptions.

a) Investment properties valued under capitalization of income method

	Effect on the fair value estimate	
	2012	2011
	EUR thousand	*EUR thousand*
Gross rent income		
Increase of 5%	402	403
Decrease of 5%	(402)	(403)
Decrease of 10%	(804)	(806)
Capitalization rate		
Increase of 0.5%	(215)	(217)
Decrease of 0.5%	235	237
Decrease of 1%	492	496

b) Investment properties valued under market comparables method

	Effect on the fair value estimate	
	2012	2011
	EUR thousand	*EUR thousand*
Additional discount to the offer prices used due to market illiquidity		
Decrease of 5%	(728)	(726)
Decrease of 10%	(1,456)	(1,451)
Decrease of 15%	(2,184)	(2,177)

Other disclosures

Investment properties with fair value of EUR 10,818 thousand (2011: EUR 10,815 thousand) are subject to first rank mortgage to secure the Fund's interest bearing bank loans (Note 11).

6. Properties (continued)

6.2. Trading property

	2012	2011
	EUR thousand	*EUR thousand*
At 1 January	-	15,604
Additions	-	138
Disposals	-	(15,742)
At 31 December	**-**	**-**

The trading property as at 31 December 2011 comprises of Class A office building and related land. On 1 November 2011 the Fund realized the sale of the property described above.

6.3. Investment properties held for sale

	2012	2011
	EUR thousand	*EUR thousand*
At 1 January	1,373	1,382
Loss from fair value adjustments	(156)	(9)
Transfers from equipment	6	-
At 31 December	**1,223**	**1,373**

Investment properties held for sale (not subject to development prior to sale) are carried at fair value estimated by an accredited external valuer, by using market comparables method. The effective date of the valuation was 31 December 2012. Any fair value adjustments were included in the income statement.

Investment properties held for sale as of 31 December 2012 and 31 December 2011 consist of vacation property and land related to it. The property was bought in 2007, but due to lower interest from potential buyers due to the financial crisis and its impact on the market for vacation properties, the Fund failed to realize the property despite its active marketing campaign. The Fund intends to continue working actively towards the sale of the property in the next year.

For 2012 and 2011, due to the real estate market illiquidity, the input data for the valuation was based on offer prices for comparable properties adjusted for specific characteristics of Fund's properties held for sale.

Sensitivity analysis of the valuation and its effect on the reported fair values are set out below:

	Effect on the fair value estimate	
	2012	2011
	EUR thousand	*EUR thousand*
Additional discount to the offer prices used due to market illiquidity		
Decrease of 5%	(74)	(71)
Decrease of 10%	(148)	(140)
Decrease of 15%	(212)	(209)

7. Deferred expenses

	2012	2011
	EUR thousand	*EUR thousand*
Prepaid fees	1	-
Insurance	4	5
	5	**5**

With regards to the realized sales of Investment properties (Note 6.1) and Trading property (Note 6.2), the Fund has written off the related non-amortised lease incentives and initial direct costs for operating leases. The incentives and initial direct costs written off are presented as deduction from the rental income in the income statement in 2011 (Note 5.1).

	2012	2011
	EUR thousand	*EUR thousand*
Operating lease incentives		
At 1 January	-	310
Additions	-	117
Recognized in income statement during the year (Note 5.1)	-	(427)
At 31 December	**-**	**-**
Initial direct costs for operating leases		
At 1 January	-	41
Additions	-	1
Recognized in income statement during the year (Note 5.1)	-	(42)
At 31 December	**-**	**-**

8. Trade and other receivables

	2012	2011
	EUR thousand	*EUR thousand*
Rental income receivable, gross	77	131
Less: Impairment	(65)	(55)
Rental income receivable, net	**12**	**76**
Property sales receivables, gross	302	1,007
Less: Impairment	(302)	(60)
Property sales receivable, net	**-**	**947**
Receivables from and prepayments to the Management Company	80	80
Interest receivable	421	200
VAT receivable	9	28
Prepayments to suppliers	3	13
Receivables from tenants for consumables	-	2
Other receivables	-	9
	525	**1,355**

8. Trade and other receivables (continued)

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

- Rental receivables from lease of commercial premises – 14 day terms;
- Rental receivables from lease of agricultural land - within the agricultural year ending 30 September.

Rental income receivables are pledged as collateral for the Fund's long-term bank loans (Note 11).

As at 31 December 2012, rental income receivables with nominal value of EUR 65 thousand (2011: EUR 76 thousand) and property sales receivables with nominal value of EUR 302 thousand (2011: EUR 302 thousand) were impaired following collectability analysis performed by the Fund's management.

Movements in the impairment of receivables were as follows:

	2012	2011
	EUR thousand	*EUR thousand*
At 1 January	(115)	(95)
Charge for the year (Note 5.6)	(259)	(20)
Written-off	7	-
At 31 December	**(367)**	**(115)**

As at 31 December 2012 and 2011, the ageing analysis of trade and other receivables is as follows:

			Past due but not impaired				
	Total	Neither past due nor impaired	< 30 days	30-60 days	60-90 days	90-120 days	>120 days
	EUR thousand	*EUR thousand*	*EUR thousand*	*EUR thousand*	*EUR thousand*	*EUR thousand*	*EUR thousand*
2012	525	432	1	-	-	-	92
2011	1,355	961	-	2	71	-	321

9. Cash and cash equivalents

	2012	2011
	EUR thousand	*EUR thousand*
Cash at bank and in hand	14	29
Short-term deposits with banks	14,837	21,140
	14,851	**21,169**

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short-term deposits are made in Bulgarian Leva, for varying periods of between three months and twelve months (open deposits) in 2012 (2011: between three months and twelve months) depending on the immediate cash and investment requirements of the Fund, and earn fixed interest of 4%-8% per annum (2011: 4% - 8 % per annum). The short-term deposits can be withdrawn at the option of the Fund at any time.

10. Share capital, share premium and reserves

10.1. Share capital

Authorized and fully paid

	2012	2011
	EUR thousand	*EUR thousand*
Ordinary shares of EUR 0.511 each (BGN 1 each)	30,907	30,907
	30,907	**30,907**

Ordinary shares	Number of shares	Amount
	thousand	*EUR thousand*
Authorized, issued and fully paid		
At 1 January 2011	60,450	60,450
At 31 December 2011	60,450	60,450
At 31 December 2012	**60,450**	**60,450**

During 2012 and 2011 the Fund did not increase its capital by means of a public offering on the Bulgarian Stock Exchange.

The ownership structure of the authorized share capital of the Fund as at 31 December 2012 is as follows:

	Number of shares (thousand)	Shareholding percentage
Unicredit Bank Austria AG	8,468	14.01%
Danube Invest Oy	6,097	10.09%
ING Universal Pension Fund	3,947	6.53%
ZYPF Alianz Bulgaria	2,977	4.92%
Universal Pension Fund Doverie AD	2,622	4.34%
Swedbank AS Clients	2,312	3.82%
SEB Osteuropafond	2,050	3.39%
Swedbank AS	1,645	2.72%
MNI OOD	1,603	2.65%
DPF Alianz Bulgaria	1,498	2.48%
Globus Balistic EOOD	1,479	2.45%
BI Finance EOOD	1,235	2.04%
UPF DSK Rodina AD	1,152	1.91%
Danske Invest-Eastern Europe Convergence	1,145	1.89%
Nikolay Sergeevic Dragomiretski	1,068	1.77%
Mibo Consult EOOD	950	1.57%
Chavdar Ivanov Donkov	908	1,50%
Balkan Holdings (Cyprus) Limited	894	1.48%
ING Voluntary Pension Fund	872	1.44%
Shareholdings of less that 1.4% interest	17,528	28.99%
	60,450	**100%**

10. Share capital, share premium and reserves (continue)

10.2. Share premium

As at 31 December 2012 share premium amounts to EUR 5,016 thousand (2011: EUR 5,016 thousand), representing the excess of the proceeds of the issue of new shares in 2006 over their nominal value.

11. Long-term interest bearing loans

	Nominal interest rate %	Maturity	2011	2011
Current portion			*EUR thousand*	*EUR thousand*
(1) EUR 7,000 thousand investment bank loan, at nominal value	1 month Euribor +1.6%	December 2013	814	770
Interest payable			9	12
			823	**782**
Non-current portion				
(1) EUR 7,000 thousand investment bank loan, at nominal value	1 month Euribor +1.6%	December 2016	2,733	3,547
Adjustment to amortized cost			(12)	(17)
			2,721	**3,530**

(1) EUR 7,000 thousand investment bank loan
The purpose of the loan is to finance the acquisition of the two commercial investment properties. The loan is secured by mortgage over investment properties with fair value as at 31 December 2012 of EUR 10,818 thousand (2011: EUR 10,815 thousand), present and future receivables under operating lease agreements of commercial properties and promissory notes to the amount of EUR 7,000 thousand together with the interest at 5% on this amount. The loan is repayable in monthly instalments due on 14th of each month. Maturity analysis of the loan based on contractual undiscounted payments is provided in Note 18.

12. Derivative financial instrument

	2012	2011
	EUR thousand	*EUR thousand*
Liability on interest rate swap reported in the statement of financial position	290	342

	2012	2011
	EUR thousand	*EUR thousand*
Unrealised gain on interest rate swap reported in income statement	52	9

The interest rate swap agreement matures on 14 December 2016. The notional amount is EUR 7,000 thousand. The Fund shall pay a fixed interest at 4.04% and receive a variable interest at 1 month Euribor. Details on the fair value of interest rate swap are provided in Note 19.

The Fund concluded a contract to secure its contingent obligations under the interest swap agreement in the event of default up to the amount of EUR 700 thousand with the same bank. This contract has the same term as the underlying interest swap agreement. In 2012 the Fund did not default under the swap agreement.

13. Provision for dividends due

	2012	2011
	EUR thousand	*EUR thousand*
Provision for dividends due	902	6,390
Provision for withholding tax	18	191
	920	**6,581**
Dividend per share, gross (in Euro)	**€0.015**	**€0.109**
Dividend per share, gross (proposed by management)	**€0.033**	**€0.109**

According to the Act on Special Investment Purpose Companies (ASIPC), the Fund is obliged to distribute at least 90% of its annual net profits as adjusted by the effects of all transactions with investment properties carried out throughout the year. Such effects inclusive of fair value adjustments for investment properties are restricted for distribution.

Based on the Fund's financial performance for the years ended 31 December 2012 and 2011, dividend distribution was considered on the basis of operational and legal considerations. As a result, the Fund recognised provision for dividends based on 90% of its profit for the respective year adjusted as per the requirements of ASIPC and which the Fund had legal obligation to distribute, as a minimum, at the reporting dates.

The Board of Directors of Bulgarian Real Estate Fund ADSIC will propose to the regular General Meeting of the Shareholders in 2013, to be allocated 100% of the adjusted (as defined in the Special Purpose Investment Companies Act) financial result of the Fund for 2012 at the amount of EUR 1,022,831.81 and the remaining retained earnings from previous years at the amount of EUR 980,386.75. Thus, the total amount subject to distribution and approval of the General Meeting of the Shareholders proposed by the Board of Directors of the Fund will amount to EUR 2,003,218.56, or a gross dividend of EUR 0.033138438 per share.

14. Trade and other payables

	2012	2011
	EUR thousand	*EUR thousand*
Payables to the Management Company	149	215
- management and success fee payable	57	88
- payables related to construction works	68	101
- other payables	24	26
Dividend payables	15	-
Payables to suppliers	3	482
Accrued liability for claims related to construction contracts	-	176
Payables to tenants	-	40
Other payables	52	44
	219	**957**

14. Trade and other payables (continued)

Terms and conditions of the financial liabilities are:

- Payables to the Management Company are non-interest bearing and normally settled on 30 day terms or in accordance with the individual contractual provisions with the sub-contractors. Additional disclosures are provided in Note 15.1.
- Payables to various suppliers are non-interest bearing and are normally settled on 14 day terms.
- Retentions are non-interest bearing and are normally settled upon acceptance of the project.

After an analysis of the warranty terms, the management released accrued liability for claims related to construction contracts at the amount of EUR 176 thousand as other income (Note 5.4).

15. Related party disclosures

During the year, the Fund entered into transactions with related parties. These transactions along with the related balances as at 31 December 2012 and 2011 are presented below. Related party is considered to be a party that has the ability to control the Fund or exercise significant influence over the Fund in making financial or operational decisions.

15.1. Fees and payables to Management Company

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

Real Estate Management Company is entitled to receive management fees. These fees are based on an aggregate of 1.5% per annum on the Net Asset Values of the Fund. Management fees are payable monthly in arrears.

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

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

For the year ended 31 December 2012 management fees charged were EUR 564 thousand (2011: EUR 585 thousand) while related payables to the Management company as at 31 December 2012 were EUR 57 thousand (2011: EUR 72 thousand).

For the year ended 31 December 2012 no success fees were charged (2011: EUR 1,441 thousand, of which EUR 16 thousand were not settled as of 31 December 2011).

Other receivables from and payables to the Management Company are presented in Note 8 and Note 14, respectively.

15. Related party disclosures (continued)

15.2. Directors' remunerations and Board expenses

The Directors are entitled to remuneration for their services at rates determined by the General Meeting of Shareholders. In addition, Directors are reimbursed for reasonable travelling, hotel and other incidental expenses in respect of attending meetings of the Directors or General Meetings of the Fund. The Director's fees vary from one to ten minimal monthly salaries for Bulgaria. For the year ended 31 December 2012 Director's fees were EUR 40 thousand, thereof social securities in the amount of EUR 7 thousand (2011: EUR 25 thousand, thereof social securities in the amount of EUR 3 thousand).

16. Earnings per share

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

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

	2012	2011
	EUR thousand	*EUR thousand*
Profit for the year	879	5,758
Weighted average number of ordinary shares (in thousand)	60,450	60,450
Basic earnings per share (in Euro)	**€0.014**	**€0.095**

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

17. Commitments

Operating lease commitments – Fund as a lessor

Lease of commercial properties (investment properties)

The Fund has entered into two commercial property leases. These leases had initial term of 10 years. The lease agreements include a clause to enable upward revision of the rental charge according to prevailing market conditions. The leases have terms of renewal and sale whereas the Fund is obliged to offer these first to the lessee at market conditions. In 2012 the Fund signed new annexes to the lease agreements prolonging the operating lease agreements' term up to 31 December 2021 (or with 5 more years). To secure its receivables under the lease agreements the Fund has received one year revolving guarantees for good performance from the lessee in the amount 90% of five monthly lease payments.

Future minimum rentals receivable under non-cancellable operating leases as at 31 December are as follows:

	2012	2011
	EUR thousand	*EUR thousand*
Within one year	1,090	1,082
After one year but not more than five years	4,433	4,085
More than five years	4,355	-
	9,878	**5,167**

The Fund's present and future receivables under operating lease agreements are subject to pledge to secure bank loans as disclosed in Note 11.

17. Commitments (continued)

Operating lease commitments – Fund as a lessor (continued)

Lease of agricultural land (investment properties)
The Fund has entered into operating lease agreements of agricultural land. These leases have terms between 1 and 10 years.

Future minimum rentals receivable under non-cancellable operating leases of agricultural land as at 31 December are as follows:

	2012	2011
	EUR thousand	*EUR thousand*
Within one year	3	3
After one year but not more than five years	5	6
More than five years	2	5
	10	**14**

18. Financial risk management objectives and policies

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

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

Market risk on investment properties

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

Interest rate risk

The Fund's exposure to the risk of changes in market interest rates relates primarily to its debt obligations with floating interest rates. The Fund's policy is to manage its interest cost through continuous negotiations with financial institutions (banks) aimed at achieving the most favourable terms and conditions that are on offer. Furthermore the Fund has entered into interest rate swap agreement, in which it agrees to exchange, at specified intervals, the difference between fixed and variable rate interest amounts calculated by reference to an agreed-upon notional principal amount equal to the borrowed amount on the EUR 7,000 thousand investment bank loan (Note 11).

As at 31 December 2012 the Fund the interest rate risk is limited, as all interest bearing bank loans and deposits are with fixed rates (the interest rate risk of the EUR 7,000 thousand investment loan is minimized by the contracted swap agreement). The contracted swap agreement has no impact on the Fund's equity.

Liquidity risk

The investments in deposits are realizable on demand. The Fund has entered into long-term lease contracts with creditworthy tenants and monitors closely timely collection of related receivables. For investment projects the management considers various ways of attracting capital.

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

18. Financial risk management objectives and policies (continued)

Liquidity risk (continued)

As of 31 December 2012	On demand	Less than 3 months	3 to 12 months	1 to 5 years	> 5 years	Total
	EUR thousand	*EUR thousand*	*EUR thousand*	*EUR thousand*	*EUR thousand*	*EUR thousand*
EUR 7,000 thousand investment bank loan and liability on a derivative financial instrument	-	238	743	2,964	-	3,945
Trade and other payables	59	15	145	-	-	219
	59	**253**	**888**	**2,964**	**-**	**4,164**

As of 31 December 2011	On demand	Less than 3 months	3 to 12 months	1 to 5 years	> 5 years	Total
	EUR thousand	*EUR thousand*	*EUR thousand*	*EUR thousand*	*EUR thousand*	*EUR thousand*
EUR 7,000 thousand investment bank loan and liability on a derivative financial instrument	-	247	743	3,963	-	4,953
Trade payables	474	40	223	-	-	737
	474	**287**	**966**	**3,963**	**-**	**5,690**

Foreign currency risk

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

Credit risk

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

The Fund's maximum exposure to credit risk in the event the counterparties fail to perform their obligations as at 31 December 2012 in relation to each class of recognized financial assets is the carrying amount of those assets as indicated in the statement of financial position

The main credit risk to which the Fund is exposure related to other financial assets (different from trade receivables) arise from deposits in bank institutions. In order to manage the credit risk, the Fund works only with accredited bank institutions, with high credit ratings. As of 31 December 2012 the short-term deposits of the Fund are distributed in bank with following credit ratings:

18. Financial risk management objectives and policies (continued)

	EUR thousand	*Credit Rating*
Bank 1	12,479	BB-
Bank 2	2,358	Not available

Capital management

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

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

	2012	2011
	EUR thousand	*EUR thousand*
Share capital	30,907	30,907
Share premium	5,016	5,016
Retained earnings	1,083	1,124
Total equity	37,006	37,047
Investment properties, including held for sale and trading properties	26,595	26,701
Long-term interest bearing loans (long and short-term portion)	3,544	4,312
Equity to long-term debt	10.44	8.59
Investment properties, including held for sale and trading properties to equity	0.72	0.72
Market capitalization	16,072	20,337

19. Fair value of financial instruments

Fair values

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

	Carrying amount		*Fair value*	
	2012	2011	2012	2011
	EUR thousand	*EUR thousand*	*EUR thousand*	*EUR thousand*
Financial assets				
Trade and other receivables	525	1,355	525	1,355
Cash and short-term deposits	14,851	21,169	14,851	21,169
Financial liabilities				
Long-term interest bearing loans	3,544	4,312	3,544	4,312
Derivative financial instrument	290	342	290	342
Trade payables	219	737	219	737

The fair value of the financial assets and liabilities are included at an estimate of the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The following methods and assumptions were used to estimate the fair values:

- Cash and short-term deposits, trade receivables, trade payables, and other current assets and liabilities approximate their carrying amounts due to the short-term maturities of these instruments;
- The fair value of floating rate loans is estimated by discounting future cash flows using rates currently available for debt or similar terms and remaining maturities. The fair value approximates their carrying values gross of unamortized transaction costs.
- The fair value of the derivative interest rate swap contract is estimated by discounting expected future cash flows using current market interest rates and yield curve over the remaining term of the instrument. The counterparty bank performed the fair value assessment of the interest rate swap.

Fair value hierarchy

The following table shows an analysis of the fair values of financial instruments recognized in the statement of financial position by level of the fair value hierarchy*:

31 December 2012	Level 1	Level 2	Level 3	**Total fair value**
	EUR'000	*EUR'000*	*EUR'000*	***EUR'000***
Derivative - interest rate swap	-	290	-	**290**

31 December 2011	Level 1	Level 2	Level 3	**Total fair value**
	EUR'000	*EUR'000*	*EUR'000*	***EUR'000***
Derivative - interest rate swap	-	342	-	**342**

19. Fair value of financial instruments (continued)

Fair value hierarchy (continued)

* Explanation of the fair value hierarchy:

- Level 1 - Quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date
- Level 2 – Use of a model with inputs (other than quoted prices included in level 1) that are directly or indirectly observable market data
- Level 3 - Use of a model with inputs that are not based on observable market data.

20. Events after the reporting date

There are no subsequent events between the reporting date and the date these financial statements have been authorised for issue that would require adjustment and/or disclosure in the financial statements of Bulgarian Real Estate Fund ADSIC for the year ended 31 December 2012.