Bulgarian Real Estate Fund

Bulgarian Real Estate Fund ADSIC

ANNUAL FINANCIAL STATEMENTS

31 December 2009

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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1756 Sofia
Bulgaria

Depository bank
DSK Bank AD

Brokers
Elta Consult AD / Richard Ellis OOD
Settle Real Estate OOD
Colliers International EOOD

Investment intermediaries
Sofia International Securities Inc. AD

Management Company
Real Estate Management (MNI) OOD

Auditor
Ernst & Young Audit OOD
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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 at 31 December 2009, 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 notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, as endorsed by the European Union (EU). This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

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 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 auditors' 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 and fair presentation of the financial statements 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 at 31 December 2009, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards, as endorsed by the EU.

We also reported separately on the statutory financial statements of Bulgarian Real Estate Fund ADSIC for the same period prepared in accordance with International Financial Reporting Standards, as endorsed by the EU, in Bulgarian, expressed in Bulgarian Leva.

Ernst & Young

Ernst & Young Audit OOD

Sofia, Bulgaria

29 March 2010

BULGARIAN REAL ESTATE FUND ADSIC
INCOME STATEMENT
For the year ended 31 December 2009

	Notes	2009	2008
		EUR thousand	*EUR thousand*
Income			
Rental income	3.1	2,257	1,306
Sale of properties	3.2	1,751	45,889
Interest income		738	704
Gain on sale of other financial assets		-	14
Other income	3.4	552	57
Total income		**5,298**	**47,970**
Expenses			
Net losses from fair value adjustments to investment properties	4	(3,601)	(40)
Carrying amount of properties sold	4	(1,438)	(33,845)
Management and success fees	13.1	(797)	(3,660)
Interest expenses		(470)	(1,227)
Direct operating expenses arising from properties	3.5	(389)	(430)
Agency fees and local taxes related to sale of properties		(248)	(2,370)
Loss on derivative financial instrument	10	(141)	(360)
Directors' remunerations and Board expenses	13.2	(20)	(21)
Employee benefit costs		(14)	(13)
Foreign exchange loss		(6)	(5)
Net loss on available-for-sale financial assets	8.3	-	(4)
Other expenses	3.6	(434)	(1,122)
Total expenses		**(7,558)**	**(43,097)**
(Loss)/Profit for the year		**(2,260)**	**4,873**
(Losses)/Earnings per share – basic and diluted	14	**(€0.037)**	**€0.081**

Executive Director
Nikolay Skarlatov

Preparer
Alexander Georgiev

The accompanying notes to the financial statements on pages 8 to 47 form an integral part of these financial statements.

BULGARIAN REAL ESTATE FUND ADSIC
STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31 December 2009

	Notes	2009	2008
		EUR thousand	*EUR thousand*
(Loss)/ Profit for the year		**(2,260)**	**4,873**
Other comprehensive income			
Realized losses on available-for-sale financial assets reclassified to income statement	8.3	-	6
Other comprehensive income for the year		-	6
Total comprehensive income for the year		**(2,260)**	**4,879**

Executive Director
Nikolay Skarlatov

Preparer
Alexander Georgiev

The accompanying notes to the financial statements on pages 8 to 47 form an integral part of these financial statements.

BULGARIAN REAL ESTATE FUND ADSIC
STATEMENT OF FINANCIAL POSITION
As at 31 December 2009

	Notes	2009 *EUR thousand*	2008 *EUR thousand*
ASSETS			
Non-current assets			
Investment property	4.1	33,141	38,967
Equipment		18	15
Intangible assets		6	1
Deferred expenses	5	270	-
		33,435	**38,983**
Current assets			
Trading property	4.2	15,408	11,947
Investment property held for sale	4.3	1,453	2,238
Trade and other receivables	6	465	1,696
Deferred expenses	5	92	9
Cash and cash equivalents	7	1,024	13,145
		18,442	**29,035**
TOTAL ASSETS		**51,877**	**68,018**
Equity			
Share capital	8.1	30,907	30,907
Share premium	8.2	5,016	5,016
Retained earnings		2,813	6,287
Total equity		**38,736**	**42,210**
Non-current liabilities			
Long-term interest bearing loans	9	9,517	5,695
Derivative financial instrument	10	375	234
		9,892	**5,929**
Current liabilities			
Current portion of long-term interest bearing loans	9	1,081	666
Provision for dividends due	11	1,214	14,812
Trade and other payables	12	636	4,304
Management and success fee payable	13.1	318	45
Deferred revenue		-	52
		3,249	**19,879**
Total liabilities		**13,141**	**25,808**
TOTAL EQUITY AND LIABILITIES		**51,877**	**68,018**

Executive Director
Nikolay Skarlatov

Preparer
Alexander Georgiev

The accompanying notes to the financial statements on pages 8 to 47 form an integral part of these financial statements.

BULGARIAN REAL ESTATE FUND ADSIC
STATEMENT OF CHANGES IN EQUITY
For the year ended 31 December 2009

	Share capital (Note 8.1)	Share premium (Note 8.2)	Net unrealized gains reserve (Note 8.3)	Retained earnings	Total
	EUR thousand	*EUR thousand*	*EUR thousand*	*EUR thousand*	*EUR thousand*
At 1 January 2008	**30,907**	**5,016**	**(6)**	**16,226**	**52,143**
Profit for the year	-	-	-	4,873	4,873
Other comprehensive income	-	-	6	-	6
Total comprehensive income	-	-	6	4,873	4,879
Equity dividends (Note 11)	-	-	-	(14,812)	(14,812)
At 31 December 2008	**30,907**	**5,016**	**-**	**6,287**	**42,210**
At 1 January 2009	**30,907**	**5,016**	**-**	**6,287**	**42,210**
Loss for the year	-	-	-	(2,260)	(2,260)
Other comprehensive income	-	-	-	-	-
Total comprehensive income	-	-	-	(2,260)	(2,260)
Equity dividends (Note 11)	-	-	-	(1,214)	(1,214)
At 31 December 2009	**30,907**	**5,016**	**-**	**2,813**	**38,736**

Executive Director
Nikolay Skarlatov

Preparer
Alexander Georgiev

The accompanying notes to the financial statements on pages 8 to 47 form an integral part of these financial statements.

BULGARIAN REAL ESTATE FUND ADSIC
STATEMENT OF CASH FLOWS
For the year ended 31 December 2009

	Notes	2009	2008
		EUR thousand	*EUR thousand*
CASH FLOWS FROM OPERATING ACTIVITIES			
(Loss)/Profit for the year		**(2,260)**	**4,873**
Adjustments to reconcile (loss)/profit for the year to net cash flows			
Non-cash:			
Net losses from fair value adjustments to properties	4	3,601	40
Interest income		(738)	(704)
Interest expense		470	1,227
Net loss on available-for-sale financial assets		-	4
Loss on derivative financial instrument	10	141	360
Gain on sale of other financial assets		-	(14)
Gain on sale of properties		(313)	(12,044)
Write off of properties	3.6	203	78
Depreciation expense	3.6	4	3
Amortization of initial direct fees on operating lease	4	37	6
Movement in impairment provision of receivables	6	(446)	836
Working capital adjustments:			
Decrease/(Increase) in trade and other receivables		262	(66)
(Decrease)/Increase in trade and other payables		(3,395)	2,633
Increase in deferred expenses		(353)	(7)
(Decrease)/Increase in deferred revenue		(52)	52
Net cash flows used in operating activities		**(2,839)**	**(2,723)**
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of properties		(2,129)	(12,544)
Purchases of other financial assets		-	(1,641)
Purchase of equipment		(12)	(10)
Restricted deposit		-	9,817
Proceeds from sale of properties		3,156	39,607
Proceeds from other financial assets		-	1,655
Proceeds from sale of financial assets available for sale		-	14
Interest received		748	714
Net cash flows from investing activities		**1,763**	**37,612**
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from borrowings		5,000	-
Repayment of borrowings		(714)	(21,356)
Interest paid		(519)	(1,209)
Equity dividends paid		(14,812)	(775)
Net cash flows used in financing activities		**(11,045)**	**(23,340)**
Net (decrease)/increase in cash and cash equivalents		(12,121)	11,549
Cash and cash equivalents at 1 January		13,145	1,596
Cash and cash equivalents at 31 December	7	**1,024**	**13,145**

Executive Director
Nikolay Skarlatov

Preparer
Alexander Georgiev

The accompanying notes to the financial statements on pages 8 to 47 form 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) for a duration of 15 years. This term can be extended by shareholders' decision.

The registered office of the Fund is located at 258 Okolovrasten pat Str., Kambanite Business Center, bl. A, fl. 2, 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 13 below.

These financial statements for the year ended 31 December 2009 were authorized for issue in accordance with a resolution of the Board of Directors on 29 March 2010.

2.1. Basis of preparation

The financial statements have been prepared on a historical cost basis, except for investment properties, derivative financial instruments and available for sale financial assets 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 endorsed by 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 endorsed by the EU. The statutory financial statements were authorized for issue by the Board of Directors on 29 March 2010.

2.2. Changes in accounting policies and disclosures

New and amended standards and interpretations effective for reporting periods ended 31 December 2009

The accounting policies adopted are consistent with those of the previous financial year except as follows:

The Fund has adopted the following new and amended IFRS and International Financial Reporting Interpretations Committee ("IFRIC") interpretations as of 1 January 2009:

- IFRS 1 *First-time Adoption (Amended)*
- IFRS 2 *Share-based Payments – Vesting Conditions and Cancellations (Amendment)*
- IFRS 7 *Financial Instruments: Disclosures (Amendment)*
- IFRS 8 *Operating Segments*
- IAS 1 *Presentation of Financial Statements (Revised)*
- IAS 23 *Borrowing Costs (Revised)*
- IAS 27 *Consolidated and Separate Financial Statements (Amended)*
- IAS 32 *Financial Instruments: Presentation and* IAS 1 *Puttable Financial Instruments and Obligations Arising on Liquidation*
- IFRIC 9 *Reassessment of Embedded Derivatives and* IAS 39 *Financial Instruments: Recognition and Measurement*
- IFRIC 12 *Service Concession Arrangements*
- IFRIC 13 *Customer Loyalty Programmes* effective for annual periods beginning on or after 1 July 2008
- IFRIC 15 *Agreements for the Construction of Real Estate*
- IFRIC 16 *Hedges of a Net Investment in a Foreign Operation*
- IFRIC 18 *Transfers of Assets from Customers*
- *Improvements to IFRSs (issued in 2008 and 2009)*

When the 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:

IFRS 1 *First-time Adoption (Amended) – Cost of investments in subsidiaries, jointly controlled entities or associates*
The amendments to IFRS 1 allow the cost of investments in subsidiaries, jointly controlled entities or associates (in the opening IFRS financial statements) to be determined as either cost in accordance with IAS 27 or deemed cost. As the Fund is not first time adopter of IFRS, these amendments did not have an impact on its financial statements.

IFRS 2 *Share-based Payments – Vesting Conditions and Cancellations (Amendment)*
The standard restricts the definition of "vesting condition" to a condition that includes an explicit or implicit requirement to provide services. Any other conditions are non-vesting conditions, which have to be taken into account to determine the fair value of the equity instruments granted. In the case that the award does not vest as the result of a failure to meet a non-vesting condition that is within the control of either the entity or the counterparty, this must be accounted for as a cancellation. As the Fund does not have share-based payment schemes, the amendment did not have impact on it.

IFRS 7 *Financial Instruments: Disclosures (Amendment)*
The amended standard requires additional disclosures about fair value measurement and liquidity risk. Fair value measurements related to items recorded at fair value are to be disclosed by source of inputs using a three level fair value hierarchy, by class, for all financial instruments recognised at fair value. In addition, reconciliation between the beginning and ending balance for level 3 fair value measurements is now required, as well as significant transfers between levels in the fair value hierarchy. The amendments also clarify the requirements for liquidity risk disclosures with respect to derivative transactions and assets used for liquidity management. The fair value measurement disclosures are presented in Note 17. The fair value measurement and liquidity risk disclosures are not significantly impacted by the amendments and are presented in Note 17 and 16, respectively.

2.2. Changes in accounting policies and disclosures (continued)

New and amended standards and interpretations effective for reporting periods ended 31 December 2009 (continued)

IFRS 8 *Operating Segments*
IFRS 8 replaced IAS 14 Segment Reporting. IFRS 8 adopts a management approach to segment reporting. The information reported would be that which management uses internally for evaluating the performance of operating segments and allocating resources to those segments. This information may be different from that reported in the statement of financial position and income statement and entities will need to provide explanations and reconciliations of the differences. The Fund does not report any operating segment. However, as a listed company, it has to comply with the entity-wide disclosure requirements of IFRS 8. Such disclosures are provided in Note 3.3.

IAS 1 *Presentation of Financial Statements (Revised)*
The standard separates owner and non-owner changes in equity. The statement of changes in equity includes only details of transactions with owners, with non-owner changes in equity presented as a reconciliation of each component of equity. In addition, the standard introduces the statement of comprehensive income: it presents all items of recognised income and expense, either in one single statement, or in two linked statements. The Fund has elected to present two linked statements – income statement and statement of comprehensive income.

IAS 23 *Borrowing Costs (Revised)*
The revised standard requires capitalisation of borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset. A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale. However, an entity is not required to apply the revised standard to the borrowing costs directly attributable to the acquisition or construction of a qualifying assets measured at fair value. The Fund's previous policy was to expense borrowing costs as they were incurred. In accordance with the transitional provisions of the amended IAS 23, the Fund has adopted the standard on a prospective basis. Therefore, borrowing costs are capitalised on qualifying assets, not measured at fair value, with a commencement date on or after 1 January 2009. For the period ended 31 December 2009, no borrowing costs have been capitalized as Fund does not have any assets that meet the definition criteria of a qualifying asset (not measured at fair value).

IAS 27 Consolidated and Separate Financial Statements (Amended) – Cost of investments in subsidiaries, jointly controlled entities or associates
The amended IAS 27 requires all dividends from subsidiaries, jointly controlled entities or associates to be recognized in profit or loss in separate financial statements. The revision to IAS 27 will have to be applied prospectively. Further, it allows cost of an investment in a subsidiary, in limited reorganizations, to be based on the previous carrying amount of the subsidiary rather than its fair value. The amendments of IAS 27 did not have an impact on the financial statements of the Fund.

IAS 32 *Financial Instruments: Presentation and* IAS 1 *Puttable Financial Instruments and Obligations Arising on Liquidation*
The standards have been amended to allow a limited scope exception for puttable financial instruments to be classified as equity if they fulfill a number of specified criteria. The amendments did not have any impact on the financial statements of the Fund.

2.2. Changes in accounting policies and disclosures (continued)

New and amended standards and interpretations effective for reporting periods ended 31 December 2009 (continued)

IFRIC 9 *Reassessment of Embedded Derivatives and* IAS 39 *Financial Instruments: Recognition and Measurement*
This amendment to IFRIC 9 requires an entity to assess whether an embedded derivative must be separated from a host contract when the entity reclassifies a hybrid financial asset out of the fair value through profit or loss category. This assessment is to be made based on circumstances that existed on the later of the date the entity first became a party to the contract and the date of any contract amendments that significantly change the cash flows of the contract. IAS 39 now states that if an embedded derivative cannot be reliably measured, the entire hybrid instrument t must remain classified as at fair value through profit or loss. The adoption of these amendments did not have any impact on the financial position or the performance of the Fund.

IFRIC 12 *Service Concession Arrangements*
This interpretation applies to service concession operators and explains how to account for the obligations undertaken and rights received in service concession arrangements. The interpretation did not have any impact on the financial statements of the Fund.

IFRIC 13 *Customer Loyalty Programmes*
This Interpretation requires customer loyalty award credits to be accounted for as a separate component of the sales transaction in which they are granted and therefore part of the fair value of the consideration received is allocated to the award credits and deferred over the period that the award credits are fulfilled. The adoption of this Interpretation did not have any impact on the financial statements of the Fund as no such schemes currently exist.

IFRIC 15 *Agreements for the Construction of Real Estate*
The interpretation is to be applied retrospectively. It clarifies when and how revenue and related expenses from the sale of a real estate unit should be recognised if an agreement between a developer and a buyer is reached before the construction of the real estate is completed. Furthermore, the interpretation provides guidance on how to determine whether an agreement is within the scope of IAS 11 *Construction Contracts* or IAS 18 *Revenue*. This interpretation did not have any impact on the Fund's financial statements.

IFRIC 16 *Hedges of a Net Investment in a Foreign Operation*
The interpretation is to be applied prospectively. IFRIC 16 provides guidance on the accounting for a hedge of a net investment. As such it provides guidance on identifying the foreign currency risks that qualify for hedge accounting in the hedge of a net investment, where within the group the hedging instruments can be held in the hedge of a net investment and how an entity should determine the amount of foreign currency gain or loss, relating to both the net investment and the hedging instrument, to be recycled on disposal of the net investment. This interpretation did not have any impact on the Fund's financial statements.

IFRIC 18 *Transfers of Assets from Customers*
IFRIC 18 applies to the accounting for transfers of items of property, plant and equipment by entities that receive such transfers from their customers and addresses the following issues: (a) Is the definition of an asset met?; (b) If the definition of an asset is met, how should the transferred item of property, plant and equipment be measured on initial recognition?; (c) If the item of property, plant and equipment is measured at fair value on initial recognition, how should the resulting credit be accounted for?; (d) How should the entity account for a transfer of cash from its customer? This interpretation did not have any impact on the Fund's financial position or performance.

2.2. Changes in accounting policies and disclosures (continued)

New and amended standards and interpretations effective for reporting periods ended 31 December 2009 (continued)

Improvements to IFRSs (issued in 2008 and 2009)

In May 2008 and April 2009, the International Accounting Standards Board ("IASB") issued omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. There are separate transitional provisions for each standard. The adoption of the following amendments resulted in changes to accounting policies but did not have any impact on the financial position or performance of the Fund.

- IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations:* When a subsidiary is held for sale, all of its assets and liabilities shall be classified as held for sale under IFRS 5, even when the entity will retain a non-controlling interest in the subsidiary after the sale. As the Fund does not report a subsidiary held for sale, this amendment did not have any impact on the Fund's financial statements.

- IAS 1 *Presentation of Financial Statements:* Assets and liabilities classified as held for trading in accordance with IAS 39 Financial Instruments: Recognition and Measurement are not automatically classified as current in the statement of financial position.
- IAS 16 *Property, Plant and Equipment:* Replaces the term "net selling price" with "fair value less costs to sell".

- IAS *18 Revenue:* The Board has added guidance (which accompanies the standard) to determine whether an entity is acting as a principal or as an agent. The features to consider are whether the entity:
  - Has primary responsibility for providing the goods or service
  - Has inventory risk
  - Has discretion in establishing prices
  - Bears the credit risk

  The Fund has assessed its revenue arrangements against these criteria and concluded that it is acting as principal in all arrangements except as disclosed in note 2.3 b) below. The revenue recognition accounting policy has been updated accordingly.

- IAS 20 *Accounting for Government Grants and Disclosures of Government Assistance:* Loans granted with no or low interest will not be exempt from the requirement to impute interest. Interest is to be imputed on loans granted with below-market interest rates.

- IAS 23 *Borrowing Costs:* The definition of borrowing costs is revised to consolidate the two types of items that are considered components of 'borrowing costs' into one – the interest expense calculated using the effective interest rate method calculated in accordance with IAS 39.

- IAS 36 *Impairment of Assets:* When discounted cash flows are used to estimate 'fair value less cost to sell' additional disclosure is required about the discount rate, consistent with disclosures required when the discounted cash flows are used to estimate 'value in use'.

- IAS 38 *Intangible Assets:* Expenditure on advertising and promotional activities is recognised as an expense when the Company either has the right to access the goods or has received the service.

2.2. Changes in accounting policies and disclosures (continued)

New and amended standards and interpretations effective for reporting periods ended 31 December 2009 (continued)

Improvements to IFRSs (issued in 2008 and 2009) (continued)
Other amendments resulting from Improvements to IFRSs to the following standards did not have any impact on the accounting policies, financial position or performance of the Company:

- IFRS 7 Financial Instruments: Disclosures
- IAS 8 Accounting Policies, Change in Accounting Estimates and Error
- IAS 10 Events after the Reporting Period
- IAS 19 Employee Benefits
- IAS 27 Consolidated and Separate Financial Statements
- IAS 28 Investments in Associates
- IAS 29 Financial Reporting in Hyperinflationary Economics
- IAS 31 Interest in Joint Ventures
- IAS 34 Interim Financial Reporting
- IAS 38 Intangible Assets
- IAS 39 Financial Instruments: Recognition and Measurement
- IAS 40 Investment Properties
- IAS 41 Agriculture

Other

Reclassifications and re-representations

Certain reclassifications and re-representations of comparative information included in the income statement and in the statement of financial position were made in order to ensure consistency with the presentation of current financial year's figures and to improve understandability of financial information. In particular, certain amounts from other expenses were presented as separate line items on the face of the income statement as "Direct operating expenses arising from properties" and "Agency fees and local taxes related to sale of properties". In addition, the Fund combined certain lines into line "Trade and other receivables" ("Value added tax receivable", "Amounts due from brokers", "Interest receivable" and "Prepayments") and into line "Trade and other payables" ("Amounts due to brokers").

2.3 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.

2.3. Summary of the significant accounting policies (continued)

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 and 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.

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.

2.3. Summary of the significant accounting policies (continued)

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. The Fund capitalizes borrowing costs for all eligible assets where construction was commenced on or after 1 January 2009. The Fund continues to expense borrowing costs relating to construction projects that commenced prior to 1 January 2009.

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, trade receivables and available for sale investments.

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.

2.3. Summary of the significant accounting policies (continued)

g) Financial instruments – recognition and measurement (continued)

- **Financial assets (continued)**

Subsequent measurement (continued)

Available-for-sale financial investments
Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified in any of the preceding categories.

After initial measurement, available for sale financial assets are measured at fair value with unrealised gains or losses being recognised in other comprehensive income. When the investment is disposed of, the cumulative gain or loss previously recorded in equity is recognised in the income statement. Interest earned or paid on the investments is reported as interest income or expense using the effective interest rate. Dividends earned on investments are recognised in the income statement as 'Dividends received' when the right of payment has been established.

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.

2.3. 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.

Available-for-sale financial investments
If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in the income statement, is transferred from equity to the income statement. Reversals in respect of equity instruments classified as available for sale are not recognised in the income statement. Reversals of impairment losses on debt instruments are reversed through the income statement, if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss was recognised in the income statement.

- **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.

2.3. Summary of the significant accounting policies (continued)

g) Financial instruments – recognition and measurement (continued)

- **Financial liabilities (continued)**

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.

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 2009, no financial liabilities have been designated as at fair value through profit and loss (2008: 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.

2.3. Summary of the significant accounting policies (continued)

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 is provided in Note 17.

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 17.

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 include also existing investment properties under development i.e. development properties. 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.

2.3. Summary of the significant accounting policies (continued)

l) Investment properties (continued)

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. When the Fund completes the construction or development of a self constructed 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, the property is classified as held for sale and measured at fair value.

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.

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. A reassessment is made after inception of the lease only if one of the following applies:

a) There is a change in contractual terms, other than a renewal or extension of the arrangement;
b) A renewal option is exercised or extension granted, unless the term of the renewal or extension was initially included in the lease term;
c) There is a change in the determination of whether fulfilment is dependant on a specified asset; or
d) There is a substantial change to the asset.

Where a reassessment is made, lease accounting shall commence or cease from the date when the change in circumstances gave rise to the reassessment for scenarios a), c) or d) and at the date of renewal or extension period for scenario b).

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.

2.3. Summary of the significant accounting policies (continued)

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:

	2009	2008
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.

For 2009 and 2008 the Fund did not report any significant items of equipment.

q) Intangible assets

Intangible assets are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses.

Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life is reviewed at least at each financial year end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortisation period or method, as appropriate, and treated as changes in accounting estimates.

The useful lives of intangible assets are assessed to be finite as follows:

	2009	2008
Software	2 years	2 years

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the income statement when the asset is derecognised.

For 2009 and 2008 the Fund did not report any significant intangible assets.

2.3. Summary of the significant accounting policies (continued)

r) 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.

s) 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.

t) 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.

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.

2.4. 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 and office properties as well as on agricultural land plots. 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 15.

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 2.3 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.

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 supported by comparable market data. The sensitivity of fair valuation to reasonably expected changes in the most significant assumptions is provided in Note 4.

Provision for impairment of receivables
Management maintains a provision for impairment of receivables to account for estimated losses resulting from the inability of customers to make required payments. When evaluating the adequacy of provision for 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 2009 the best estimate of the provision for impairment of receivables is EUR 402 thousand (2008 EUR 848 thousand). Further details are provided in Note 6.

2.5. Future changes in accounting policies

Standards, interpretations and amendments issued but not yet effective

Certain new standards, amendments and interpretations to existing standards have been published that are mandatory for accounting periods beginning on or after 1 January 2010 or later periods but which the Fund has not early adopted, as follows:

IFRS 1 *Additional Exemptions for First-time Adopters (Amendments)*
The amendments to IFRS 1 were issued in July 2009 and become effective for annual periods beginning on or after 1 January 2010. These amendments provide for additional exemptions from full retrospective application of IFRS for the measurement of oil and gas assets and the assessment of leasing contracts in accordance with IFRIC 4. The Fund does not expect these amendments to impact its financial statements. These amendments have not yet been endorsed by the EU.

2.5. Future changes in accounting policies (continued)

Standards, interpretations and amendments issued but not yet effective (continued)

IFRS 2 *Group Cash-settled Share-based Payment Transactions (Amendments)*
These amendments to IFRS 2 were issued in June 2009 and become effective for annual periods beginning on or after 1 January 2010. These amendments clarify the scope and the accounting for group cash-settled share-based payment transactions. The Fund does not expect these amendments to impact its financial position or performance.

IFRS 3 *Business Combinations (Revised) and* IAS 27 *Consolidated and Separate Financial Statements (Revised)*
The revised standards were issued in January 2008 and become effective for annual periods beginning on or after 1 July 2009. The revised IFRS 3 introduces a number of changes in the accounting for business combinations occurring after this date that will impact the amount of goodwill recognised, the reported results in the period that an acquisition occurs, and future reported results. The revised IAS 27 requires that a change in the ownership interest of a subsidiary (without loss of control) is accounted for as an equity transaction. Therefore, such transactions will no longer give rise to goodwill, nor will it give raise to gain or loss. Furthermore, the amended standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. The changes introduced by the revised IFRS 3 and the revised IAS 27 must be applied prospectively and will affect future acquisitions or loss of control and transactions with minority interests.

IFRS 9 *Financial Instruments*
The first phase of IFRS 9 *Financial Instruments* was issued in November 2009 and becomes effective from 1 January 2013. The main focus of the first phase is the classification and measurement of financial assets. The impact from the first phase of the new IFRS 9 is expected to be analysed by the Fund. This standard has not yet been endorsed by the EU.

IAS 39 *Financial Instruments: Recognition and Measurement – Eligible Hedged Items*
These amendments to IAS 39 were issued in August 2008 and become effective for annual periods beginning on or after 1 July 2009. The amendment clarifies that an entity is permitted to designate a portion of the fair value changes or cash flow variability of a financial instrument as a hedged item. This also covers the designation of inflation as a hedged risk or portion in particular situations. The Fund does not expect these amendments to impact its financial statements.

IAS 24 *Related Party Disclosures (Revised)*
The amendments to IAS 24 were issued in November 2009 and become effective for annual periods beginning 1 January 2011. The revised version of IAS 24 clarifies and simplifies the definition of a related party. The Fund does not expect these amendments to impact its financial statements. The revised standard has not yet been endorsed by the EU.

IFRIC 14 *Prepayment of a Minimum Funding Requirement (Amendment)*
This amendment was issued in November 2009 and is effective for annual periods beginning 1 January 2011. This amendment will allow these entities to recognise a prepayment of pension contributions as an asset rather than an expense. The Fund does not expect the amendment to impact its financial statements. This amendment has not yet been endorsed by the EU.

IFRIC 17 *Distributions of Non-cash Assets to Owners*
IFRIC 17 was issued on 27 November 2008 and is effective for annual periods beginning on or after 1 July 2009 and must be applied prospectively. IFRIC 17 applies to all non-reciprocal distributions of non-current assets to owners. It provides guidance when to recognise a liability, how to measure it and the associated assets, and when to derecognise the asset and liability and consequences of doing so. The Fund is in the process of assessing the impact of IFRIC 17 on its financial statements.

2.5. Future changes in accounting policies (continued)

Standards, interpretations and amendments issued but not yet effective (continued)

IFRIC 19 *Extinguishing Financial Liabilities with Equity Instruments*
IFRIC 19 was issued in November 2009 and is effective for annual periods 1 July 2010. The IFRIC clarifies the measurement of equity instruments issued to a creditor to extinguish a financial liability as well as the treatment of the difference between the fair value of the equity instruments issued and the carrying amount of the financial liability that is extinguished. The Fund is in the process of assessing the impact of IFRIC 17 on its financial statements. This Interpretation has not yet been endorsed by the EU.

Improvements to IFRSs (issued in 2008 and 2009)
Improvements to IFRSs were issued in 2008 and 2009 by the International Accounting Standards Board as its second omnibus of amendments to its standards. Most of the amendments become effective for annual periods beginning on or after 1 January 2010. The impacts of the first-time application of these amendments on the Fund's financial statements are currently being reviewed. These amendments have not yet been endorsed by the EU.

3. Revenues and expenses

3.1. Rental income

	2009	2008
	EUR thousand	*EUR thousand*
Rental income from investment properties	1,345	1,306
Rental income from trading property	965	-
Amortization of operating lease incentives and initial direct costs (Note 5)	(53)	-
	2,257	**1,306**

3.2. Sale of properties

	2009	2008
	EUR thousand	*EUR thousand*
Investment property (agricultural land)	1,637	2
Investment properties held for sale	114	17,560
Trading properties	-	28,327
	1,751	**45,889**

3.3. Revenue 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	2009	2008
		EUR thousand	*EUR thousand*
Customer 1	Rent	1,082	1,082
Customer 2	Rent	864	-
Customer 3	Sale of properties	-	28,395
Customer 4	Sale of properties	-	17,434

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.

3. Revenues and expenses (continued)

3.4. Other income

	2009	2008
	EUR thousand	*EUR thousand*
Net movement in impairment provision of receivables (Note 6)	446	-
Reversal of accruals	71	-
Penalty claims	-	57
Other income	35	-
	552	**57**

3.5. Direct operating expenses arising from properties

	2009	2008
Direct operating expenses arising from properties that generated rental income	*EUR thousand*	*EUR thousand*
Investment properties	(187)	(300)
Trading properties	(171)	(93)
	(358)	**(393)**
Direct operating expenses arising from properties that did not generated rental income		
Investment properties	(10)	-
Investment property held for sale	(21)	(37)
	(31)	**(37)**
Total direct operating expenses arising from properties	**(389)**	**(430)**

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

	2009	2008
	EUR thousand	*EUR thousand*
Local taxes and fees	(235)	(283)
Service charge expense, net	(66)	-
Fees for sundry services	(58)	(76)
Repair and maintenance	(30)	(71)
	(389)	**(430)**

3. Revenues and expenses (continued)

3.6. Other expenses

	2009	2008
	EUR thousand	*EUR thousand*
Properties written off (note 4)	(203)	(78)
Value added tax not subject to refund, net	(148)	(3)
Fees for sundry services	(31)	(150)
Expenses on materials	(25)	-
Consumables	(18)	(25)
Depreciation	(4)	(3)
Bank charges	(4)	(26)
Net movement in impairment provision of trade receivables (note 6)	-	(836)
Other	(1)	(1)
	(434)	**(1,122)**

4. Properties

4.1. Investment property

	Agricultural land	Non-agricultural land and buildings	Land for development	Construction in progress	Total
	EUR thousand	*EUR thousand*	*EUR thousand*	*EUR thousand*	*EUR thousand*
At 1 January 2008	5,398	31,741	6,956	1,470	45,565
Additions	838	286	-	5,442	6,566
Net gains/(losses) from fair value adjustments	379	(1,063)	(109)	-	(793)
Transfer	-	3,504	(3,504)	-	-
Transfer to trading properties (Note 4.2)	-	-	(3,343)	(6,661)	(10,004)
Transfer to investment properties held for sale (Note 4.3)	-	(2,282)	-	-	(2,282)
Transfer of initial direct costs related to operating leases	18	(18)	-	-	-
Amortization of initial direct costs related to operating leases	(6)	-	-	-	(6)
Write offs (note 3.6)	(24)	-	-	(54)	(78)
Disposals	(1)	-	-	-	(1)
At 31 December 2008	**6,602**	**32,168**	-	**197**	**38,967**
At 1 January 2009	6,602	32,168	-	197	38,967
Additions	86	-	-	6	92
Net gains/(losses) from fair value adjustments	221	(3,216)	-	-	(2,995)
Transfer to trading properties (Note 4.2)	-	(1,424)	-	-	(1,424)
Amortization of initial direct costs related to operating leases	(37)	-	-	-	(37)
Write offs (Note 3.6)	-	-	-	(203)	(203)
Disposals	(1,259)	-	-	-	(1,259)
At 31 December 2009	**5,613**	**27,528**	-	-	**33,141**

Fair valuations

The Fund engaged an accredited external valuer to fair value its investment properties. The effective date of the valuations was 31 December 2009. 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, infrastructure.

4. Properties (continued)

4.1. Investment Property (continued)

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

	2009	2008
	EUR thousand	*EUR thousand*
Investment properties valued under capitalization of income method	10,855	11,089
Investments properties (excl. construction in progress) valued under market comparables method	22,286	27,681
Total investment properties at fair value (excl. construction in progress)	**33,141**	**38,770**

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
2009			
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%
2008			
Gross rent income	EUR per month	63,175	44,120
Capitalization rate	%	9.5%	9.5%
Vacancy risk	% of gross rent income	10.0%	10.0%

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

4. Properties (continued)

4.1. 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	
	2009	2008
	EUR thousand	*EUR thousand*
Gross rent income		
Increase of 5%	404	422
Decrease of 5%	(404)	(422)
Decrease of 10%	(808)	(844)
Capitalization rate		
Increase of 0.5%	(217)	(234)
Decrease of 0.5%	238	257
Decrease of 1%	498	539

b) Investment properties valued under market comparables method

	Effect on the fair value estimate	
	2009	2008
	EUR thousand	*EUR thousand*
Additional discount to the offer prices used due to market illiquidity		
Decrease of 5%	(1,113)	(1,385)
Decrease of 10%	(2,226)	(2,770)
Decrease of 15%	(3,339)	(4,155)

Other disclosures

Investment properties with fair value of EUR 10,855 thousand (2008: EUR 11,089 thousand) are subject to first rank mortgage to secure the Fund's interest bearing bank loans (Note 9).

4. Properties (continued)

4.2. Trading property

	2009	2008
	EUR thousand	*EUR thousand*
At 1 January	11,947	11,333
Additions	2,037	7,335
Transfer from investment property (Note 4.1)	1,424	10,004
Disposals	-	(16,725)
At 31 December	**15,408**	**11,947**

The trading property comprises of Class A office building and related land. In prior years it was developed with a view of sale and thus was transferred from investment property to inventory. The negotiated sale transaction was not executed. Effective May 2009 the Fund commenced leasing out approximately 65% of the available property office space to tenants (details on the lease arrangements are provided in Note 15). Yet, the Fund's management remains committed to sell the property and has an active program to locate a buyer. Therefore, no change in the property classification was made as at 31 December 2009.

Lower of cost and net realizable value

Trading property is valued at lower of cost and net realizable value (NRV). As at 31 December 2009 the net realizable value was determined by an accredited external valuer using the discounted cash flows method (as the part of the property premises were leased out) and amounted to EUR 16,055 thousand. As the cost of the trading properties was below its estimated net realizable value, no write-down was necessary. The determination of the net realizable value was based on the following significant assumptions:

	Measure	Trading property
Gross rent during the first forecast year	EUR per month	166,179
Rent annual growth rate	%	1.5%
Capitalization rate	%	8.0%
Vacancy risk (average for the forecast period)	% of gross rent income	13.8%
Discount rate	%	12.5%
Operating expenses	% of rental income adjusted for vacancy risk	11.5%

As the tolerance of trading property cost over its NRV appeared relatively small, the Fund performed a sensitivity analysis of reasonably expected changes in the most significant assumptions. Their effect on the net realizable value and potential write-down are set out in the table below:

4. Properties (continued)

4.2. Trading property (continued)

	Effect on net realizable value	Potential write-down
	EUR thousand	*EUR thousand*
Gross rent during the first forecast year		
Increase of 5%	803	no
Decrease of 5%	(803)	(155)
Decrease of 10%	(1,606)	(958)
Capitalization rate		
Decrease of 1%	1,039	no
Vacancy risk		
Increase of 5%	(897)	(250)
Increase of 10%	(1,795)	(1,147)
Discount rate		
Decrease of 1%	1,063	no
Decrease of 1.5%	1,630	no
Operating expenses		
Decrease of 2%	360	no
Decrease of 5%	900	no

Other disclosures

The trading property with carrying value of EUR 15,408 thousand (2008: Nil) is subject to first rank mortgage to secure the Fund's interest bearing bank loans (Note 9)

4.3. Investment properties held for sale

	2009	2008
	EUR thousand	*EUR thousand*
At 1 January	2,238	16,322
(Loss)/Gain from fair value adjustments	(606)	753
Additions	-	-
Transfer from investment properties (Note 4.1)	-	2,282
Disposals	(179)	(17,119)
At 31 December	**1,453**	**2,238**

4. Properties (continued)

4.3. Investment properties held for sale (continued)

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 2009. Any fair value adjustments were included in the income statement.

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

	Effect on the fair value estimate	
	2009	2008
	EUR thousand	*EUR thousand*
Additional discount to the offer prices used due to market illiquidity		
Decrease of 5%	(73)	(112)
Decrease of 10%	(146)	(224)
Decrease of 15%	(219)	(336)

5. Deferred expenses

	2009	2008
	EUR thousand	*EUR thousand*
Non-current		
Operating lease incentives	237	-
Initial direct costs for operating leases	33	-
	270	**-**
Current		
Operating lease incentives	71	-
Initial direct costs for operating leases	10	-
Insurance	11	9
	92	**9**

5. Deferred expenses (continued)

	2009	2008
	EUR thousand	*EUR thousand*
Operating lease incentives		
At 1 January	-	-
Additions	354	
Recognized in income statement during the year (Note 3.1)	(46)	-
At 31 December	**308**	**-**
Initial direct costs for operating leases		
At 1 January	-	-
Additions	50	-
Recognized in income statement during the year (Note 3.1)	(7)	-
At 31 December	**43**	**-**

6. Trade and other receivables

	2009	2008
	EUR thousand	*EUR thousand*
Rental income receivable, gross	199	207
Less: Impairment provision	(62)	(30)
Rental income receivable, net	137	177
Property sales receivables, gross	642	2,207
Less: Impairment provision	(340)	(818)
Property sales receivable, net	302	1,389
Trade receivables, net	**439**	**1,566**
Amounts due from brokers	18	98
Advances paid	8	22
Interest receivable	-	10
	465	**1,696**

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

- Rental receivables from lease of office and 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 a collateral for the Fund's long-term bank loans. (Note 9).

As at 31 December 2009, rental income receivables with nominal value of EUR 79 thousand (2008: EUR 37 thousand) and property sales receivables with nominal value of EUR 400 thousand (2008: EUR 1,574 thousand) were provided for impairment following collectability analysis performed by the Fund's management.

6. Trade and other receivables (continued)

Movements in the impairment provision of receivables were as follows:

	2009	2008
	EUR thousand	*EUR thousand*
At 1 January	(848)	(12)
Charge for the year	(32)	(837)
Utilised	478	1
At 31 December	**(402)**	**(848)**

As at 31 December 2009 and 2008, the ageing analysis of trade 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*
2009	362	115	10	-	63	-	174
2008	803	240	-	-	56	498	9

7. Cash and cash equivalents

	2009	2008
	EUR thousand	*EUR thousand*
Cash at bank and in hand	8	140
Short-term deposits with banks	1,016	13,005
	1,024	**13,145**

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short-term deposits are made in Bulgarian Leva and EUR, for varying periods of between three days and three months in 2009 (2008: between seven days and one month) depending on the immediate cash and investment requirements of the Fund, and earn interest at the respective short-term term deposits in Bulgarian Leva and EUR rates of 3.25% - 9.75 % per annum (2008: 4.5% - 7.5% per annum). These deposits can be withdrawn at the option of the Fund at any time.

8. Share capital, share premium and reserves

8.1. Share capital

Authorized and fully paid

	2009	2008
	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 (thousand)	Amount
		EUR thousand
Authorized, issued and fully paid		
At 1 January 2008	60,450	30,907
At 31 December 2008	60,450	30,907
At 31 December 2009	**60,450**	**30,907**

During 2009 and 2008 the Fund did not increase its capital by means of a public offering on the Bulgarian Stock Exchange.

The ownership structure of the authorized, issued and fully paid share capital of the Fund as at 31 December 2009 is as follows:

	Number of shares (thousand)	Shareholding percentage
Unicredit Bank Austria AG	9,218	15.25%
Swedbank AS	8,418	13.93%
Swedbank AS Clients	4,873	8.06%
Universal Pension Fund Doverie AD	2,459	4.07%
Bank of New York – Omnibus Account	2,184	3.61%
ZYPF Allianz Bulgaria	1,784	2.95%
Skand Enskilda Banken	1,701	2.81%
DPF Allianz Bulgaria	1,456	2.41%
Danske Invest-Eastern Europe Convergence	1,145	1.89%
SEB Kasvufond	1,077	1.78%
SEB Progressiivne Pensionifond	1,064	1.76%
Bi Finance EOOD	1,000	1.65%
DF Europa	992	1.64%
ING Universal Pension Fund	891	1.47%
DF OBB Premium Shares	880	1.46%
Balkan Holdings (Cyprus) Limited	850	1.41%
DF DSK Growth	816	1.35%
Globus Balistic EOOD	792	1.31%
First Investment Bank AD	791	1.31%
Raiffeisen Zentralbank Osterreich AG	750	1.24%
Settle EOOD	636	1.05%
Shareholdings of less that 1% interest	16,673	27.59%
	60,450	**100%**

8. Share capital, share premium and reserves (continued)

8.2. Share premium

As at 31 December 2009 share premium amounts to EUR 5,016 thousand (2008: EUR 5,016 thousand), representing the excess of the proceeds of the issue of new shares in 2006 over their nominal value.

8.3. Net unrealized gains reserve

This reserve records fair value changes on available-for-sale financial assets.

For 2008 the net realized loss from the available for sale financial assets (compensatory notes) resulted from the net gain on the sale of EUR 2 thousand and the realized loss reclassified from equity to profit or loss of EUR 6 thousand.

9. Long-term interest bearing loans

	Nominal interest rate %	Maturity	2009 *EUR thousand*	2008 *EUR thousand*
Current				
(1) EUR 7,000 thousand investment bank loan, at nominal value	1-3 month Euribor +1.6%	December 2009/2010	686	651
Interest payable			5	15
			691	**666**
(2) EUR 5,000 thousand investment bank loan, at nominal value	the higher of 3 month Euribor+5%, or 8 %	December 2009/2010	388	-
Interest payable			2	-
			390	-
Total current portion			**1,081**	**666**
Non-current				
(1) EUR 7,000 thousand investment bank loan, at nominal value	1-3 month Euribor +1.6%	December 2016	5,048	5,733
Adjustment to amortized cost			1	(38)
			5,049	**5,695**
(2) EUR 5,000 thousand investment bank loan, at nominal value	the higher of 3 month Euribor+5%, or 8 %	October 2018	4,548	-
Adjustment to amortized cost			(80)	-
			4,468	-
Total non-current portion			**9,517**	**5,695**

9. Long-term interest bearing loans (continued)

(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 2009 of EUR 10,855 thousand (2008: EUR 11,089 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 installments due on 14th of each month. The effective interest rate of the loan is 5.75%. Maturity analysis of the loan based on contractual undiscounted payments is provided in Note 16.

(2) EUR 5,000 thousand investment bank loan
The purpose of the loan is to refinance expenses incurred in relation to the start of the operating activities of trading property. The loan is secured by mortgage over the trading property with carrying value of EUR 15,408 thousand, present and future receivables under operating lease agreements with tenants. The loan is repayable in monthly installments due on 29th of each month. The effective interest rate of the loan is 8.38%. Maturity analysis of the loan based on contractual undiscounted payments is provided in Note 16.

As part of the loan conditions, the Fund has to comply with the following financial covenants:
- maintain net asset value above EUR 25 million (Note 16, Capital management);
- maintain debt coverage ratio of at least 1.2.

As at 31 December 2009, the Fund is in compliance with the above financial covenants.

10. Derivative financial instrument

	2009	2008
	EUR thousand	*EUR thousand*
Liability on interest rate swap reported in the statement of financial position	375	234

	2009	2008
	EUR thousand	*EUR thousand*
Unrealised (loss) on interest rate swap reported in income statement	(141)	(360)

The interest rate swap agreement maturies 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 17.

The Fund concluded a contract to secure its contingent obligations under the interest swap agreement up to the amount of EUR 700 thousand, with the same bank. This contract has the same term as the underlying interest swap agreement.

11. Provision for dividends due

	2009 *EUR thousand*	2008 *EUR thousand*
Provision for dividends due	1,176	14,107
Provision for withholding tax	38	705
	1,214	**14,812**
Dividend per share, gross (in Euro)	**€ 0.020**	**€ 0.245**

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 year ended 31 December 2009 and 2008, 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.

12. Trade and other payables

	2009 *EUR thousand*	2008 *EUR thousand*
Retentions related to construction contracts	375	1,108
Accrued liability for claims related to construction contracts	175	175
Payables to suppliers	49	924
Advances received	16	1,200
Value added tax payable	15	871
Amounts due to brokers	-	20
Property taxes	-	4
Other payables	6	2
	636	**4,304**

Terms and condition of the financial liabilities are:

- 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.

13. 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 2009 and 2008 are presented below. Related parties are 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.

13.1. 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 can not exceed 8% of the total assets of the Fund.

For the year ended 31 December 2009 management fees charged were EUR 629 thousand (2008: EUR 903 thousand) while related payables to the Management company as at 31 December 2009 were EUR 260 thousand (2008: EUR 114 thousand).

For the year ended 31 December 2009 success fees charged were EUR 168 thousand (2008: EUR 2,757 thousand) while related payables to the Management company as at 31 December 2009 were EUR 58 thousand (2008: receivables from the Management company related to overpaid success fees of EUR 69 thousand).

13.2. 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 traveling, 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 2009 Director's fees were EUR 20 thousand (2008: EUR 21 thousand).

14. 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:

	2009	2008
	EUR thousand	*EUR thousand*
(Loss)/Profit for the year	(2,260)	4,873
Weighted average number of ordinary shares (in thousand)	60,450	60,450
Basic (losses)/earnings per share (in Euro)	**(€ 0.037)**	**€ 0.081**

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.

15. Commitments

Operating lease commitments – Fund as a lessor

Lease of agricultural land (investment properties)
The Fund has entered into operating lease agreements of agricultural land. These leases have terms between 1 and 5 years. Future minimum rentals receivable under non-cancellable operating leases of agricultural land as at 31 December are as follows:

	2009	2008
	EUR thousand	*EUR thousand*
Within one year	204	233
After one year but not more than five years	276	636
More than five years	-	-
	480	**869**

Lease of office premises (trading property)
The Fund has entered into operating lease agreements of its office premises. These leases have terms from 3 to 10 years and provide for various termination clauses. Leases have 6 month terms of renewal option. To secure its receivables under the lease agreements the Fund has received three-year payment guarantee from its major lessee in the amount of three month rent and the corresponding VAT for the leased premises. Future minimum rentals receivable under non-cancellable operating leases of office premises as at 31 December are as follows:

	2009	2008
	EUR thousand	*EUR thousand*
Within one year	1,586	683
After one year but not more than five years	5,376	5,464
More than five years	529	342
	7,491	**6,489**

Lease of commercial properties (investment properties)
The Fund has entered into two commercial property leases. These leases have a 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. 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 of annual rents due.

15. Commitments (continued)

Lease of commercial properties (investment properties) (continued)

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

	2009	2008
	EUR thousand	*EUR thousand*
Within one year	1,082	1,082
After one year but not more than five years	4,328	4,328
More than five years	1,920	3,002
	7,330	**8,412**

The Fund's present and future receivables under operating lease agreements are subject to pledge to secure bank loans as disclosed in Note 9.

16. 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 4.

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 9). The interest rate on EUR 5,000 thousand long term bank loan is agreed as the higher of 3 month Euribor+5%, or 8 % per annum.

As at 31 December 2009 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 and the interest rate risk of the EUR 5,000 thousand investment loan is minimized by contracted threshold on interest rate). The contracted swap agreement has no impact on the Fund's equity.

16. Financial risk management objectives and policies (continued)

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.

As of 31 December 2009	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	-	201	612	4,443	974	6,230
EUR 5,000 thousand investment bank loan	-	195	590	3,925	2,217	6,927
Management and success fee payable	-	-	318	-	-	318
Trade payables	92	224	108	-	-	424
	92	**620**	**1,628**	**8,368**	**3,191**	**13,899**

As of 31 December 2008	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	-	249	746	3,975	2,978	7,948
Management and success fee payable	-	-	45	-	-	45
Trade payables	934	923	175	-	-	2,032
	934	**1,172**	**966**	**3,975**	**2,978**	**10,025**

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.

16. Financial risk management objectives and policies (continued)

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 office and commercial properties, the Fund requires its tenants to provide deposits or bank guarantees. In respect of receivables arising from rent of agricultural land, the related credit risk is addressed through insurance policies. 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 is exposed to credit risk related to property sale receivables which are unsecured and have extended credit terms. They are concentrated in two customers and the management closely monitors related exposures, helds out-of-court settlement negotiations and undertakes legal actions, if necessary.

The Fund's maximum exposure to credit risk in the event the counterparties fail to perform their obligations as at 31 December 2009 in relation to each class of recognized financial assets is the carrying amount of those assets as indicated in the statement of financial position

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.

	2009 *EUR thousand*	2008 *EUR thousand*
Share capital	30,907	30,907
Share premium	5,016	5,016
Retained earnings	2,813	6,287
Total equity	38,736	42,210
Investment properties, including held for sale and trading properties	50,002	53,152
Long-term interest bearing loans (long and short-term portion)	10,598	6,361
Equity to long-term debt	3.66	6.64
Investment properties, including held for sale and trading properties to equity	1.29	1.26
Market capitalization	11,436	25,654

As disclosed in note 9, since 29 September 2009, the Fund is subject to externally imposed capital requirements according to the EUR 5,000 thousand loan contract. Its net assets shall not fall below EUR 25,000 thousand. As at 31 December 2009, the Fund's net asset position (EUR 38,736 thousand) exceeded the set minimum capital requirement.

17. 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*	
	2009	2008	2009	2008
	EUR thousand	*EUR thousand*	*EUR thousand*	*EUR thousand*
Financial assets				
Trade receivables	439	1,566	439	1,566
Cash and short-term deposits	1,024	13,145	1,024	13,145
Financial liabilities				
Long-term interest bearing loans	10,598	6,361	10,598	6,361
Derivative financial instrument	375	234	375	234
Management and success fee payable	318	45	318	45
Trade payables	424	2,032	424	2,032

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 2009	Level 1	Level 2	Level 3	**Total fair value**
	EUR '000	*EUR '000*	*EUR '000*	***EUR '000***
Derivative - interest rate swap	-	375	-	**375**

31 December 2008	Level 1	Level 2	Level 3	**Total fair value**
	EUR '000	*EUR '000*	*EUR '000*	***EUR '000***
Derivative - interest rate swap	-	234	-	**234**

17. Fair value of financial instruments (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.

18. Events after the reporting date

The world economic slow-down has subsequent to reporting date led to stagnated market conditions in all segments. The Fund may be exposed to further value losses due to:

- potential increases of real estate yields and therefore decreases in value of investment properties
- impairment of financial instruments and other assets; and
- lack of liquidity.

There are no other events between the reporting date and the date these financial statements have been authorised for issue that would require adjustment and/or disclosure therein.