



**Bulgarian Real Estate Fund ADSIC**

**ANNUAL FINANCIAL STATEMENTS**

31 December 2011

# BULGARIAN REAL ESTATE FUND ADSIC

## Contents

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General information .....	i
Independent auditors' report to the shareholders of Bulgarian Real Estate Fund ADSIC .....	1
Income statement .....	3
Statement of comprehensive income .....	4
Statement of financial position .....	5
Statement of changes in equity .....	6
Statement of cash flows .....	7
Notes to the financial statements	
1. Corporate information .....	8
2.1. Basis of preparation .....	8
2.2. Summary of the significant accounting policies .....	9
2.3. Changes in accounting policy and disclosures .....	18
3. Significant accounting judgments, estimates and assumptions .....	19
4. Standards issued but not yet effective and not early adopted .....	19
5. Income and expenses .....	22
5.1. Rental income .....	22
5.2. Proceeds from sale of properties .....	22
5.3. Income from external customers .....	22
5.4. Other income .....	23
5.5. Direct operating expenses arising from properties .....	23
5.6. Other expenses .....	24
6. Properties .....	24
6.1. Investment property .....	24
6.2. Trading property .....	27
6.3. Investment properties held for sale .....	27
7. Deferred expenses .....	28
8. Trade and other receivables .....	29
9. Cash and cash equivalents .....	30
10. Share capital, share premium and reserves .....	30
10.1. Share capital .....	30
10.2. Share premium .....	31
11. Long-term interest bearing loans .....	32
12. Derivative financial instrument .....	33
13. Provision for dividends due .....	33
14. Trade and other payables .....	34
15. Related party disclosures .....	34
15.1. Fees and payables to management company .....	34
15.2. Directors' remunerations and board expenses .....	35
16. Earnings per share .....	35
17. Commitments .....	36
18. Financial risk management objectives and policies .....	36
19. Fair value of financial instruments .....	39
20. Events after the reporting date .....	40

# **BULGARIAN REAL ESTATE FUND ADSIC**

## **General Information**

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### **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

### **Registered office**

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

### **Depository bank**

DSK Bank AD

### **Brokers**

Settle Real Estate OOD  
Colliers International EOOD

### **Management Company**

Real Estate Management (MNI) OOD

### **Auditor**

Ernst & Young Audit OOD  
Polygraphia Office Center  
47A, Tsarigradsko Shose Blvd., fl.4  
1124 Sofia, Bulgaria

# Independent auditors' report

## To the shareholders

## of Bulgarian Real Estate Fund ADSIC

We have audited the accompanying financial statements of Bulgarian Real Estate Fund ADSIC, which comprise the statement of financial position as of 31 December 2011, and the income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

### Management's responsibility for the financial statements

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

### Auditors' responsibility

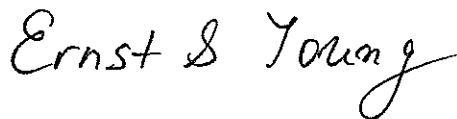
Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of Bulgarian Real Estate Fund ADSIC as of 31 December 2011, and of its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards, as adopted for use in the European Union.

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Ernst & Young Audit OOD

Sofia, Bulgaria

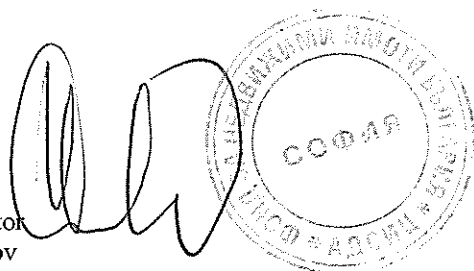
8 March 2012

**BULGARIAN REAL ESTATE FUND ADSIC**  
**INCOME STATEMENT**

For the year ended 31 December 2011

	Notes	2011 <i>EUR thousand</i>	2010 <i>EUR thousand</i>
<b>Income</b>			
Rental income	5.1	2,647	2,837
Sale of properties	5.2	28,001	1,491
Interest income		242	93
Gain on derivative financial instrument	12	9	24
Other income	5.4	58	319
<b>Total income</b>		<b>30,957</b>	<b>4,764</b>
<b>Expenses</b>			
Carrying amount of properties sold	6.1, 6.2	(20,287)	(1,393)
Management and success fees	15.1	(2,026)	(638)
Net losses from fair value adjustments to investment properties	6.1, 6.3	(868)	(925)
Interest expenses		(566)	(672)
Agency fees and local taxes related to sale of properties		(539)	(65)
Direct operating expenses arising from properties	5.5	(354)	(413)
Directors' remunerations and Board expenses	15.2	(25)	(15)
Employee benefit costs		(14)	(16)
Foreign exchange loss		(2)	(1)
Other expenses	5.6	(518)	(267)
<b>Total expenses</b>		<b>(25,199)</b>	<b>(4,405)</b>
<b>Profit for the year</b>		<b>5,758</b>	<b>359</b>
<b>Earnings per share – basic and diluted</b>	16	<b>€0.095</b>	<b>€0.006</b>

Executive Director  
Nikolay Skarlatov



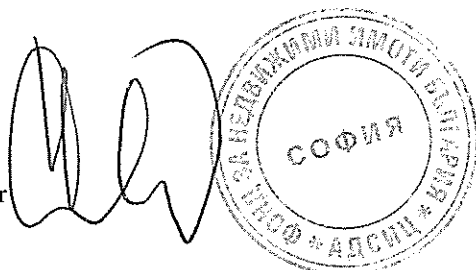
Preparer  
Alexander Georgiev

The accompanying notes to the financial statements on pages 8 to 40 form an integral part of these financial statements.

**BULGARIAN REAL ESTATE FUND ADSIC**  
**STATEMENT OF COMPREHENSIVE INCOME**  
For the year ended 31 December 2011

	<u>2011</u>	<u>2010</u>
	<i>EUR thousand</i>	<i>EUR thousand</i>
<b>Profit for the year</b>	<u>5,758</u>	<u>359</u>
<b>Other comprehensive income for the year</b>	<u>-</u>	<u>-</u>
<b>Total comprehensive income for the year</b>	<u>5,758</u>	<u>359</u>

Executive Director  
Nikolay Skarlatov



Preparer  
Alexander Georgiev

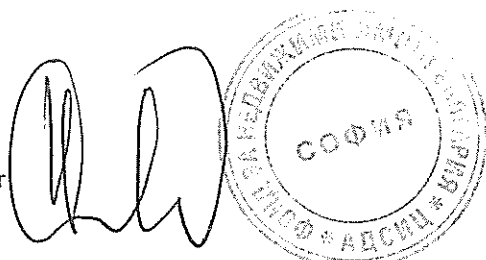
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The accompanying notes to the financial statements on pages 8 to 40 form an integral part of these financial statements.

**BULGARIAN REAL ESTATE FUND ADSIC**  
**STATEMENT OF FINANCIAL POSITION**  
As at 31 December 2011

	Notes	2011 <i>EUR</i> <i>thousand</i>	2010 <i>EUR</i> <i>thousand</i>
<b>ASSETS</b>			
<b>Non-current assets</b>			
Investment property	6.1	25,328	30,895
Equipment		9	18
Intangible assets		-	4
Deferred expenses	7	-	244
		<u>25,337</u>	<u>31,161</u>
<b>Current assets</b>			
Trading property	6.2	-	15,604
Investment property held for sale	6.3	1,373	1,382
Trade and other receivables	8	1,355	830
Deferred expenses	7	5	134
Cash and cash equivalents	9	21,169	595
		<u>23,902</u>	<u>18,545</u>
<b>TOTAL ASSETS</b>		<u><b>49,239</b></u>	<u><b>49,706</b></u>
<b>Equity</b>			
Share capital	10.1	30,907	30,907
Share premium	10.2	5,016	5,016
Retained earnings		1,124	1,947
<b>Total equity</b>		<u><b>37,047</b></u>	<u><b>37,870</b></u>
<b>Non-current liabilities</b>			
Long-term interest bearing loans	11	3,530	8,329
Derivative financial liability	12	342	351
		<u>3,872</u>	<u>8,680</u>
<b>Current liabilities</b>			
Current portion of long-term interest bearing loans	11	782	1,177
Provision for dividends due	13	6,581	1,225
Trade and other payables	14	957	754
		<u>8,320</u>	<u>3,156</u>
<b>Total liabilities</b>		<u><b>12,192</b></u>	<u><b>11,836</b></u>
<b>TOTAL EQUITY AND LIABILITIES</b>		<u><b>49,239</b></u>	<u><b>49,706</b></u>

Executive Director  
Nikolay Skarlatov



Preparer  
Alexander Georgiev

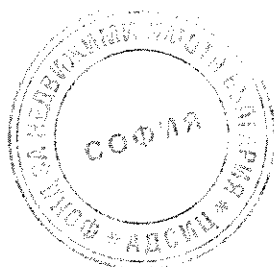
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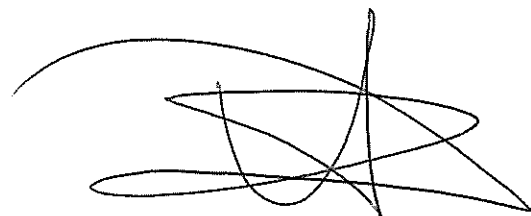
**BULGARIAN REAL ESTATE FUND ADSIC**  
**STATEMENT OF CHANGES IN EQUITY**  
For the year ended 31 December 2011

	<b>Share capital</b> <b>(Note 10.1)</b>	<b>Share premium</b> <b>(Note 10.2)</b>	<b>Retained earnings</b>	<b>Total</b>
	<i>EUR thousand</i>	<i>EUR thousand</i>	<i>EUR thousand</i>	<i>EUR thousand</i>
<b>At 1 January 2010</b>	<b>30,907</b>	<b>5,016</b>	<b>2,813</b>	<b>38,736</b>
Profit for the year	-	-	359	359
Other comprehensive income	-	-	-	-
Total comprehensive income	-	-	359	359
Equity dividends (Note 13)	-	-	(1,225)	(1,225)
<b>At 31 December 2010</b>	<b>30,907</b>	<b>5,016</b>	<b>1,947</b>	<b>37,870</b>
<b>At 1 January 2011</b>	<b>30,907</b>	<b>5,016</b>	<b>1,947</b>	<b>37,870</b>
Profit for the year	-	-	5,758	5,758
Other comprehensive income	-	-	-	-
Total comprehensive income	-	-	5,758	5,758
Equity dividends (Note 13)	-	-	(6,581)	(6,581)
<b>At 31 December 2011</b>	<b>30,907</b>	<b>5,016</b>	<b>1,124</b>	<b>37,047</b>

Executive Director  
Nikolay Skarlatov

Preparer  
Alexander Georgiev

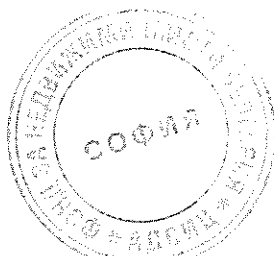


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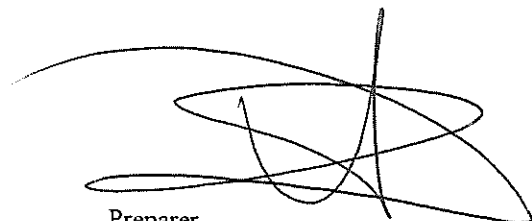
**BULGARIAN REAL ESTATE FUND ADSIC**  
**STATEMENT OF CASH FLOWS**  
For the year ended 31 December 2011

	Notes	2011 <i>EUR</i> <i>thousand</i>	2010 <i>EUR</i> <i>thousand</i>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
<b>Profit for the year</b>		<b>5,758</b>	<b>359</b>
Adjustments to reconcile profit for the year to net cash flows			
Non-cash:			
Net losses from fair value adjustments to properties	6.1, 6.3	868	925
Interest income		(242)	(93)
Interest expense		566	672
Gain on derivative financial instrument	12	(9)	(24)
Gain on sale of properties		(7,714)	(98)
Write off of equipment and intangibles	5.6	8	-
Write off of properties	5.6	194	-
Depreciation expense	5.6	6	6
Amortization of initial direct fees on operating lease	6.1	18	12
Movement in impairment of receivables	5.6, 5.4	20	(257)
Working capital adjustments:			
Increase in trade and other receivables		(398)	(360)
Increase/ (Decrease) in trade and other payables		203	(212)
Decrease/ (Increase) in deferred expenses		373	(16)
<b>Net cash flows (used in)/ from operating activities</b>		<b>(349)</b>	<b>914</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Purchases of properties		(187)	(206)
Purchase of equipment		(1)	(5)
Proceeds from sale of properties		28,001	1,819
Interest received		95	40
<b>Net cash flows from investing activities</b>		<b>27,908</b>	<b>1,648</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Repayment of borrowings		(5,264)	(1,089)
Interest paid		(496)	(688)
Equity dividends paid		(1,225)	(1,214)
<b>Net cash flows used in financing activities</b>		<b>(6,985)</b>	<b>(2,991)</b>
Net increase/ (decrease) in cash and cash equivalents		20,574	(429)
Cash and cash equivalents at 1 January		595	1,024
<b>Cash and cash equivalents at 31 December</b>	<b>9</b>	<b>21,169</b>	<b>595</b>

Executive Director  
Nikolay Skarlatov

Preparer  
Alexander Georgiev



The accompanying notes to the financial statements on pages 8 to 40 from an integral part of these financial statements.

**BULGARIAN REAL ESTATE FUND ADSIC**  
**NOTES TO THE FINANCIAL STATEMENTS**  
For the year ended 31 December 2011

## **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 3A Nikolay Haytov Str., fl 1, Sofia, Bulgaria.

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

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

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

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

These financial statements for the year ended 31 December 2011 were authorized for issue in accordance with a resolution of the Board of Directors on 8 March 2012.

### **2.1. Basis of preparation**

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

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

#### **Statement of compliance**

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

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

BREF has presented a separate set of statutory financial statements in Bulgarian, expressed in Bulgarian leva, in accordance with IFRS, as adopted for use in the EU. The statutory financial statements were authorized for issue by the Board of Directors on 8 March 2012.

## **2.2. Summary of the significant accounting policies**

### **a) Foreign currency translation**

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

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

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

### **b) Revenue recognition**

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

#### *Sale of properties*

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

#### *Interest income*

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

#### *Rental income*

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

### **c) Expenses**

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

## **2.2. Summary of the significant accounting policies (continued)**

### **d) Taxes**

#### *Income tax*

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

#### *Value Added Tax*

Revenues, expenses and assets are recognized net of the amount of Value Added Tax (VAT) except :

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

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

### **e) Borrowing costs**

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

### **f) Earnings per share**

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

### **g) Financial instruments – recognition and measurement**

- **Financial assets**

#### **Initial recognition**

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

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

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

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

## **2.2. Summary of the significant accounting policies (continued)**

### **g) Financial instruments – recognition and measurement (continued)**

- **Financial assets (continued)**

#### **Subsequent measurement**

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

##### *Loans and receivables*

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

#### **Derecognition**

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

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

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

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

#### **Impairment of financial assets**

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

## **2.2. Summary of the significant accounting policies (continued)**

### **g) Financial instruments – recognition and measurement (continued)**

- **Financial assets (continued)**

#### **Impairment of financial assets (continued)**

##### *Assets carried at amortised cost*

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

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

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

- **Financial liabilities**

#### **Initial recognition**

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

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

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

#### **Subsequent measurement**

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

##### *Loans and borrowings*

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

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

## **2.2. Summary of the significant accounting policies (continued)**

### **g) Financial instruments – recognition and measurement (continued)**

- **Financial liabilities (continued)**

#### **Subsequent measurement (continued)**

##### *Financial liabilities at fair value through profit or loss*

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

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

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

Financial liabilities may be designated at initial recognition as at fair value through profit or loss if the following criteria are met: (i) the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the liabilities or recognising gains or losses on them on a different basis; (ii) or the liabilities are part of a Fund of financial liabilities which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management strategy; (iii) or the financial liability contains an embedded derivative that would need to be separately recorded. As at 31 December 2011, no financial liabilities have been designated as at fair value through profit and loss (2010: Nil).

#### **Derecognition**

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

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the income statement.

#### **h) Derivative financial instruments**

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

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

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



## **2.2. Summary of the significant accounting policies (continued)**

### **i) Offsetting of financial instruments**

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

### **j) Fair value of financial instruments**

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

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

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

### **k) Share capital**

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

### **l) Investment properties**

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

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

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

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

## 2.2. Summary of the significant accounting policies (continued)

### m) Trading properties

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

### n) Investment properties held for sale

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

### o) Leases

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

#### *Fund as a lessor*

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

### p) Equipment

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

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

	2011	2010
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 2011 and 2010 the Fund did not report any significant items of equipment.

## **2.2. Summary of the significant accounting policies (continued)**

### **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:

	<u>2011</u>	<u>2010</u>
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 2011 and 2010 the Fund did not report any significant intangible assets.

### **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.

## **2.2. Summary of the significant accounting policies (continued)**

### **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.

## **2.3 Changes in accounting policy and disclosures**

### **New and amended standards and interpretations**

The accounting policies adopted are consistent with those of the previous financial year, except for the following new and amended IFRS and IFRIC interpretations adopted as of 1 January 2011:

- IAS 24 *Related Party Disclosures (Amendment)* effective 1 January 2011
- IAS 32 *Financial Instruments: Presentation (Amendment)* effective 1 February 2010
- IFRIC 14 *Prepayments of a Minimum Funding Requirement (Amendment)* effective 1 January 2011
- IFRIC 19 *Extinguishing Financial Liabilities with Equity Instruments* effective 1 July 2010
- Improvements to IFRSs (May 2010)

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

#### **IAS 24 *Related Party Transactions (Amendment)***

The IASB issued an amendment to IAS 24 that clarifies the definitions of a related party. The new definitions emphasize a symmetrical view of related party relationships and clarify the circumstances in which persons and key management personnel affect related party relationships of an entity. In addition, the amendment introduces an exemption from the general related party disclosure requirements for transactions with government and entities that are controlled, jointly controlled or significantly influenced by the same government as the reporting entity. The amendment is applied retrospectively. The adoption of the amendment did not have any impact on the financial position or performance of the Fund.

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

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

#### *IAS 32 Financial Instruments: Presentation (Amendment)*

The IASB issued an amendment that alters the definition of a financial liability in IAS 32 to enable entities to classify rights issues and certain options or warrants as equity instruments. The amendment is applicable if the rights are given pro rata to all of the existing owners of the same class of an entity's non-derivative equity instruments, to acquire a fixed number of the entity's own equity instruments for a fixed amount in any currency. The amendment is applied retrospectively. The amendment has had no effect on the financial position or performance of the Fund because the Fund does not have this type of instruments.

#### *IFRIC 14 Prepayments of a Minimum Funding Requirement (Amendment)*

The amendment removes an unintended consequence when an entity is subject to minimum funding requirements and makes an early payment of contributions to cover such requirements. The amendment permits a prepayment of future service cost by the entity to be recognized as pension asset. The amendment is applied retrospectively. The Fund is not subject to minimum funding requirements in Bulgaria, therefore the amendment of the interpretation has no effect on the financial position or performance of the Fund.

#### *IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments*

The interpretation clarifies that equity instruments issued to a creditor to extinguish a financial liability qualify as consideration paid. The equity instruments issued are measured at their fair value. In case that this cannot be reliably measured, the instruments are measured at the fair value of the liability extinguished. Any gain or loss is recognized immediately in profit or loss. The interpretation has had no effect on the financial position or performance of the Fund.

#### **Improvements to IFRSs**

In May 2010, the IASB issued its third omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. There are separate transitional provisions for each standard.

These amendments resulting from Improvements to IFRSs to the following standards and interpretations did not have any impact on the accounting policies, financial position or performance of the Fund:

- IFRS 3 *Business Combinations*:
- IFRS 7 *Financial Instruments – Disclosures*
- IAS 27 *Consolidated and Separate Financial Statements*
- IAS 34 *Interim Financial Reporting*
- IFRIC 13 *Customer Loyalty Programmes*

## 3. Significant accounting judgments, estimates and assumptions

### Judgments

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

#### *Operating Lease Commitments–Fund as a Lessor*

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

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

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

##### *Transfers from investment properties*

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

##### *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 the impairment of receivables, management bases its estimates on the ageing of accounts receivable, specific economic conditions of the customer, its credit worthiness and changes in customer payment terms. If the financial condition of customers were to deteriorate, actual write-offs might be higher than expected. As of 31 December 2011 the best estimate of the impairment of receivables is EUR 115 thousand (2010 EUR 95 thousand). Further details are provided in Note 8.

##### *Fair Value of Investment Properties*

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

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

Standards issued but not yet effective up to the date of issuance of the Fund's financial statements are listed below. This listing is of standards and interpretations issued, which the Fund reasonably expects to be applicable at a future date. The Fund intends to adopt those standards when they become effective.

#### **IAS 1 *Presentation of Financial Statements (Amendment)* - Presentation of Items of Other Comprehensive Income**

The amendment is effective for annual periods beginning on or after 1 July 2012. The amendments to IAS 1 change the grouping of items presented in OCI. Items that could be reclassified (or 'recycled') to profit or loss at a future point in time (for example, upon derecognition or settlement) would be presented separately from items that will never be reclassified. The amendment affects presentation only and has no impact on the Fund's financial position or performance. The Fund is in the process of assessing the impact of this amendment on its financial position or performance. The amendment has not yet been endorsed by EU.

#### **IAS 12 *Income Taxes (Amendment)* - Recovery of Underlying Assets**

The amendment is effective for annual periods beginning on or after 1 January 2012. The amendment clarified the determination of deferred tax on investment property measured at fair value. The amendment introduces a rebuttable presumption that deferred tax on investment property measured using the fair value model in IAS 40 should be determined on the basis that its carrying amount will be recovered through sale. Furthermore, it introduces the requirement that deferred tax on non-depreciable assets that are measured using the revaluation model in IAS 16 always be measured on a sale basis of the asset. The Fund does not expect any impact on its financial position or performance. The amendment has not yet been endorsed by EU.

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

##### ***IAS 19 Employee Benefits (Amendments)***

The amendment is effective for annual periods beginning on or after 1 January 2013. The IASB has issued numerous amendments to IAS 19. These range from fundamental changes such as removing the corridor mechanism and the concept of expected returns on plan assets to simple clarifications and re-wording. Early application is permitted. The Fund is in the process of assessing the impact of these amendments on its financial position or performance. The amendments have not yet been endorsed by EU.

##### ***IAS 27 Separate Financial Statements (Revised)***

The Standard is effective for annual periods beginning on or after 1 January 2013. As a consequence of the new IFRS 10 and IFRS 12, what remains of IAS 27 is limited to accounting for subsidiaries, jointly controlled entities, and associates in separate financial statements. Earlier application is permitted. The Fund is in the process of assessing the impact of this Standard on its financial position or performance. The Standard has not yet been endorsed by EU.

##### ***IAS 28 Investments in Associates and Joint Ventures (Revised)***

The Standard is effective for annual periods beginning on or after 1 January 2013. As a consequence of the new IFRS 11 and IFRS 12, IAS 28 has been renamed IAS 28 Investments in Associates and Joint Ventures, and describes the application of the equity method to investments in joint ventures in addition to associates. Earlier application is permitted. The Fund is in the process of assessing the impact of this Standard on its financial position or performance. The Standard has not yet been endorsed by EU.

##### ***IAS 32 Financial Instruments (Amendment): Presentation - Offsetting Financial assets and Financial Liabilities***

The amendment is effective for annual periods beginning on or after 1 January 2014. This amendment clarifies the meaning of “currently has a legally enforceable right to set-off” and also clarifies the application of the IAS 32 offsetting criteria to settlement systems. The amendments to IAS 32 are to be retrospectively applied. Earlier application is permitted. However, if an entity chooses to early adopt, it must disclose that fact and also make the disclosures required by the IFRS 7 Offsetting Financial Assets and Financial Liabilities amendments. The Fund is in the process of assessing the impact of the amendment on its financial position or performance. This amendment has not yet been endorsed by the EU.

##### ***IFRS 7 Financial Instruments: Disclosures (Amendment) - Enhanced Derecognition Disclosure Requirements***

The amendment is effective for annual periods beginning on or after 1 July 2011. The amendment requires additional disclosure about financial assets that have been transferred but not derecognised to enable the user of the financial statements to understand the relationship with those assets that have not been derecognised and their associated liabilities. In addition, the amendment requires disclosures about continuing involvement in derecognised assets to enable the user to evaluate the nature of, and risks associated with, the entity’s continuing involvement in those derecognised assets. The amendment has only disclosure effects. The amendment has no impact on the Fund’s financial position or performance.

##### ***IFRS 7 Financial Instruments: Disclosures (Amendment) - Offsetting Financial Assets and Financial Liabilities***

The amendment is effective for annual periods beginning on or after 1 January 2013. The amendment introduces common disclosure requirements. These disclosures would provide users with information that is useful in evaluating the effect or potential effect of netting arrangements on an entity’s financial position. The amendments to IFRS 7 are to be retrospectively applied. The Fund is in the process of assessing the impact of the amendment on its financial position or performance. This amendment has not yet been endorsed by the EU.

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

##### ***IFRS 9 Financial Instruments: Classification and Measurement***

The new standard is effective for annual periods beginning on or after 1 January 2015. IFRS 9 as issued reflects the first phase of the IASBs work on the replacement of IAS 39 and applies to classification and measurement of financial assets as defined in IAS 39. Phase I of IFRS 9 will have a significant impact on (i) the classification and measurement of financial assets and (ii) a change in reporting for those entities that have designated financial liabilities using the FV option. In subsequent phases, the IASB will address hedge accounting and impairment of financial assets. The completion of this project is expected over the first half of 2012. The Fund is in the process of assessing the impact of the new standard on its financial position or performance. The Standard has not yet been endorsed by EU.

##### ***IFRS 10 Consolidated Financial Statements***

The new standard is effective for annual periods beginning on or after 1 January 2013. IFRS 10 replaces the portion of IAS 27 *Consolidated and Separate Financial Statements* that addresses the accounting for consolidated financial statements. It also includes the issues raised in SIC-12 *Consolidation – Special Purpose Entities*. IFRS 10 establishes a single control model that applies to all entities including special purpose entities. The changes introduced by IFRS 10 will require management to exercise significant judgment to determine which entities are controlled, and therefore, are required to be consolidated by a parent, compared with the requirements that were in IAS 27. The Fund is in the process of assessing the impact of the new standard on its financial position or performance. The Standard has not yet been endorsed by EU.

##### ***IFRS 11 Joint Arrangements***

The new standard is effective for annual periods beginning on or after 1 January 2013. IFRS 11 replaces IAS 31 *Interests in Joint Ventures* and SIC-13 *Jointly-controlled Entities – Non-monetary Contributions by Venturers*. IFRS 11 removes the option to account for jointly controlled entities (JCEs) using proportionate consolidation. Instead, JCEs that meet the definition of a joint venture must be accounted for using the equity method. The Fund is in the process of assessing the impact of the new standard on its financial position or performance. This standard has not yet been endorsed by the EU.

##### ***IFRS 12 Disclosure of Interests in Other Entities***

The new standard is effective for annual periods beginning on or after 1 January 2013. IFRS 12 includes all the disclosure requirements that were previously in IAS 27 related to consolidated financial statements, as well as all the disclosures that were previously included in IAS 31 *Interests in Joint Ventures* and IAS 28 *Investments in Associates*. These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates, and structured entities. A number of new disclosures are also required. The Fund is in the process of assessing the impact of the new standard on its financial position or performance. The Standard has not yet been endorsed by EU.

##### ***IFRS 13 Fair Value Measurement***

The new standard is effective for annual periods beginning on or after 1 January 2013. IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS when fair value is required or permitted. This standard should be applied prospectively and early adoption is permitted. The Fund is in the process of assessing the impact of the new standard on its financial position or performance. The Standard has not yet been endorsed by EU.

##### ***IFRIC 20 Stripping Costs in the Production Phase of a Surface Mine***

The interpretation is effective for annual periods beginning on or after 1 January 2013. This interpretation only applies to stripping costs incurred in surface mining activity during the production phase of the mine ('production stripping costs'). Costs incurred in undertaking stripping activities are considered to create two possible benefits a) the production of inventory in the current period and/or b) improved access to ore to be mined in a future period (stripping activity asset). Where cost cannot be specifically allocated between the inventories produced during the period and the stripping activity asset, IFRIC 20 requires an entity to use an allocation basis that is based on a relevant production measure. Early application is permitted. The new interpretation does not have impact on the financial position or performance of the Fund. IFRIC 20 has not yet been endorsed by the EU.



**BULGARIAN REAL ESTATE FUND ADSIC**  
**NOTES TO THE FINANCIAL STATEMENTS**  
For the year ended 31 December 2011

**5. Income and expenses**

**5.1. Rental income**

	<u>2011</u>	<u>2010</u>
	<i>EUR thousand</i>	<i>EUR thousand</i>
Rental income from investment properties	1,245	1,323
Rental income from trading property	1,871	1,598
Amortization of operating lease incentives and initial direct costs (Note 7)	<u>(469)</u>	<u>(84)</u>
	<u><b>2,647</b></u>	<u><b>2,837</b></u>

**5.2. Proceeds from sale of properties**

	<u>2011</u>	<u>2010</u>
	<i>EUR thousand</i>	<i>EUR thousand</i>
Sale of trading property	23,002	-
Sale of investment property (agricultural land)	4,853	1,390
Sale of investment properties (non-agricultural land)	146	-
Sale of investment properties held for sale	<u>-</u>	<u>101</u>
	<u><b>28,001</b></u>	<u><b>1,491</b></u>

**5.3. Income from external customers**

*a) Geographical information*

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

*b) Information for major customers*

	<u>Type of income</u>	<u>2011</u>	<u>2010</u>
		<i>EUR thousand</i>	<i>EUR thousand</i>
Customer 1	Sale of property	23,002	-
Customer 2	Sale of property	4,852	-
Customer 3	Rent	1,326	1,356
Customer 4	Rent	1,082	1,082
Customer 5	Sale of property	-	1,380

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

**5. Income and expenses (continued)**

**5.4. Other income**

	<u>2011</u>	<u>2010</u>
	<i>EUR thousand</i>	<i>EUR thousand</i>
Overpaid taxes and penalty claims	49	18
Net movement in impairment of trade receivables (Note 8)	-	257
Other income	9	44
	<u>58</u>	<u>319</u>

**5.5. Direct operating expenses arising from properties**

	<u>2011</u>	<u>2010</u>
	<i>EUR thousand</i>	<i>EUR thousand</i>
<i>Direct operating expenses arising from properties that generated rental income</i>		
Investment properties	(115)	(101)
Trading properties	(131)	(183)
	<u>(246)</u>	<u>(284)</u>
<i>Direct operating expenses arising from properties that did not generate rental income</i>		
Investment properties	(84)	(104)
Investment property held for sale	(24)	(25)
	<u>(108)</u>	<u>(129)</u>
<b>Total direct operating expenses arising from properties</b>	<u><b>(354)</b></u>	<u><b>(413)</b></u>

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

	<u>2011</u>	<u>2010</u>
	<i>EUR thousand</i>	<i>EUR thousand</i>
Local taxes and fees	(232)	(247)
Fees for sundry services	(76)	(38)
Repair and maintenance	(46)	(128)
	<u>(354)</u>	<u>(413)</u>

**BULGARIAN REAL ESTATE FUND ADSIC**  
**NOTES TO THE FINANCIAL STATEMENTS**  
For the year ended 31 December 2011

**5. Income and expenses (continued)**

**5.6. Other expenses**

	2011	2010
	<i>EUR thousand</i>	<i>EUR thousand</i>
Bank charges	(200)	(18)
Properties written off (note 6.1)	(194)	-
Fees for sundry services	(57)	(47)
Value added tax not subject to refund, net	(26)	(86)
Net movement in impairment of trade receivables (Note 8)	(20)	-
Write off of equipment and intangibles related to sold properties	(8)	-
Depreciation	(6)	(6)
Accrued expenses on court cases for properties	(2)	(34)
Other expenses related to construction works	-	(56)
Other	(5)	(20)
	<b>(518)</b>	<b>(267)</b>

**6. Properties**

**6.1. Investment property**

	Agricultural land	Non-agricultural land and buildings	Total
	<i>EUR thousand</i>	<i>EUR thousand</i>	<i>EUR thousand</i>
At 1 January 2010	5,613	27,528	33,141
Additions	13	-	13
Net gains/(losses) from fair value adjustments	71	(1,024)	(953)
Amortization of initial direct costs related to operating leases	(12)	-	(12)
Disposals	(1,294)	-	(1,294)
<b>At 31 December 2010</b>	<b>4,391</b>	<b>26,504</b>	<b>30,895</b>
At 1 January 2011	4,391	26,504	30,895
Additions	1	48	49
Net gains/(losses) from fair value adjustments	6	(865)	(859)
Amortization of initial direct costs related to operating leases	(18)	-	(18)
Written off (Note 5.6)	(7)	(187)	(194)
Disposals	(4,275)	(270)	(4,545)
<b>At 31 December 2011</b>	<b>98</b>	<b>25,230</b>	<b>25,328</b>

## 6. Properties (continued)

### 6.1. Investment Property (continued)

#### Fair valuations

The Fund engaged an accredited external valuer to fair value its investment properties. The effective date of the valuations was 31 December 2011. 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.

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

	2011	2010
	<i>EUR thousand</i>	<i>EUR thousand</i>
Investment properties valued under capitalization of income method	10,815	10,825
Investments properties valued under market comparables method	14,513	20,070
<b>Total investment properties at fair value</b>	<b>25,328</b>	<b>30,895</b>

#### 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
<b>2011</b>			
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%
<b>2010</b>			
Gross rent income	EUR per month	63,595	44,340
Capitalization rate	%	10.0%	10.0%
Vacancy risk	% of gross rent income	10.0%	10.0%

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

## 6. Properties (continued)

### 6.1. Investment property (continued)

#### Sensitivity analysis

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

#### *a) Investment properties valued under capitalization of income method*

	Effect on the fair value estimate	
	2011	2010
	<i>EUR thousand</i>	<i>EUR thousand</i>
<i>Gross rent income</i>		
Increase of 5%	403	404
Decrease of 5%	(403)	(404)
Decrease of 10%	(806)	(808)
<i>Capitalization rate</i>		
Increase of 0.5%	(217)	(217)
Decrease of 0.5%	237	238
Decrease of 1%	496	498

#### *b) Investment properties valued under market comparables method*

	Effect on the fair value estimate	
	2011	2010
	<i>EUR thousand</i>	<i>EUR thousand</i>
<i>Additional discount to the offer prices used due to market illiquidity</i>		
Decrease of 5%	(726)	(1,003)
Decrease of 10%	(1,451)	(2,006)
Decrease of 15%	(2,177)	(3,009)

#### Other disclosures

Investment properties with fair value of EUR 10,815 thousand (2010: EUR 10,825 thousand) are subject to first rank mortgage to secure the Fund's interest bearing bank loans (Note 11).

**BULGARIAN REAL ESTATE FUND ADSIC**  
**NOTES TO THE FINANCIAL STATEMENTS**  
For the year ended 31 December 2011

**6. Properties (continued)**

**6.2. Trading property**

	2011	2010
	<i>EUR thousand</i>	<i>EUR thousand</i>
At 1 January	15,604	15,408
Additions	138	196
Disposals	(15,742)	-
<b>At 31 December</b>	<b>-</b>	<b>15,604</b>

The trading property as at 31 December 2010 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 as initially contemplated. Effective May 2009 the Fund commenced leasing out the property office space and parking lots to tenants without changing its intention to attract appropriate buyer. On 1 November 2011 the Fund realized the sale of the property described above, for which additional information is presented in Note 5.2.

**6.3. Investment properties held for sale**

	2011	2010
	<i>EUR thousand</i>	<i>EUR thousand</i>
At 1 January	1,382	1,453
(Loss)/ Gain from fair value adjustments	(9)	28
Disposals	-	(99)
<b>At 31 December</b>	<b>1,373</b>	<b>1,382</b>

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 2011. Any fair value adjustments were included in the income statement.

For 2011, due to the real estate market illiquidity, the input data for the valuation was based on offer prices for comparable properties adjusted for specific characteristics of Fund's properties held for sale. For 2010 the fair value was determined by reference to a limited number of actual sales transactions of comparable properties adjusted for specific characteristics of Fund's properties held for sale.

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

	Effect on the fair value estimate	
	2011	2010
	<i>EUR thousand</i>	<i>EUR thousand</i>
<i>Additional discount to the offer prices used due to a limited number of comparable transactions/ market illiquidity</i>		
Decrease of 5%	(71)	(66)
Decrease of 10%	(140)	(139)
Decrease of 15%	(209)	(202)

**BULGARIAN REAL ESTATE FUND ADSIC**  
**NOTES TO THE FINANCIAL STATEMENTS**  
For the year ended 31 December 2011

**7. Deferred expenses**

	<u>2011</u>	<u>2010</u>
	<i>EUR thousand</i>	<i>EUR thousand</i>
<i>Non-current</i>		
Operating lease incentives	-	215
Initial direct costs for operating leases	-	29
	<u>-</u>	<u>244</u>
<i>Current</i>		
Operating lease incentives	-	95
Initial direct costs for operating leases	-	12
Prepaid fees	-	16
Insurance	5	11
	<u>5</u>	<u>134</u>

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

	<u>2011</u>	<u>2010</u>
	<i>EUR thousand</i>	<i>EUR thousand</i>
<b>Operating lease incentives</b>		
At 1 January	310	308
Additions	117	76
Recognized in income statement during the year (Note 5.1)	(427)	(74)
<b>At 31 December</b>	<u>-</u>	<u>310</u>
<b>Initial direct costs for operating leases</b>		
At 1 January	41	43
Additions	1	8
Recognized in income statement during the year (Note 5.1)	(42)	(10)
<b>At 31 December</b>	<u>-</u>	<u>41</u>

**BULGARIAN REAL ESTATE FUND ADSIC**  
**NOTES TO THE FINANCIAL STATEMENTS**  
For the year ended 31 December 2011

**8. Trade and other receivables**

	2011	2010
	<i>EUR thousand</i>	<i>EUR thousand</i>
Rental income receivable, gross	131	149
Less: Impairment	(55)	(35)
<b>Rental income receivable, net</b>	<b>76</b>	<b>114</b>
Property sales receivables, gross	1,007	302
Less: Impairment	(60)	(60)
<b>Property sales receivable, net</b>	<b>947</b>	<b>242</b>
Receivables from and prepayments to the Management Company	80	75
Interest receivable	200	53
VAT receivable	28	-
Prepayments to suppliers	13	30
Receivables from tenants for consumables	2	16
Receivables from tenants for construction works	-	292
Other receivables	9	8
	<b>1,355</b>	<b>830</b>

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 11).

As at 31 December 2011, rental income receivables with nominal value of EUR 76 thousand (2010: EUR 47 thousand) and property sales receivables with nominal value of EUR 302 thousand (2010: EUR 302 thousand) were impaired following collectability analysis performed by the Fund's management.

Movements in the impairment of receivables were as follows:

	2011	2010
	<i>EUR thousand</i>	<i>EUR thousand</i>
At 1 January	(95)	(402)
Charge for the year (Note 5.6)	(20)	-
Utilised	-	50
Reversed (Note 5.4)	-	257
<b>At 31 December</b>	<b>(115)</b>	<b>(95)</b>



**BULGARIAN REAL ESTATE FUND ADSIC**  
**NOTES TO THE FINANCIAL STATEMENTS**  
For the year ended 31 December 2011

**8. Trade and other receivables (continued)**

As at 31 December 2011 and 2010, the ageing analysis of trade and other receivables is as follows:

	Total	Neither past due nor impaired	Past due but not impaired				
			< 30 days	30-60 days	60-90 days	90-120 days	>120 days
	EUR	EUR	EUR	EUR	EUR	EUR	EUR
	thousand	thousand	thousand	thousand	thousand	thousand	thousand
2011	1,355	961	-	2	71	-	321
2010	830	479	-	-	43	-	308

**9. Cash and cash equivalents**

	2011	2010
	EUR thousand	EUR thousand
Cash at bank and in hand	29	27
Short-term deposits with banks	21,140	568
	<b>21,169</b>	<b>595</b>

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 months and twelve months (open deposits) in 2011 (2010: between three days and twelve months) depending on the immediate cash and investment requirements of the Fund, and earn interest at the respective short-term deposits in Bulgarian Leva and EUR rates of 4%-8% per annum (2010: 7% - 12.50 % per annum). The short-term deposits can be withdrawn at the option of the Fund at any time.

**10. Share capital, share premium and reserves**

**10.1. Share capital**

*Authorized and fully paid*

	2011	2010
	EUR thousand	EUR thousand
Ordinary shares of EUR 0.511 each (BGN 1 each)	30,907	30,907
	<b>30,907</b>	<b>30,907</b>

*Ordinary shares*

	Number of shares (thousand)	Amount EUR thousand
<i>Authorized, issued and fully paid</i>		
At 1 January 2010	60,450	30,907
At 31 December 2010	60,450	30,907
<b>At 31 December 2011</b>	<b>60,450</b>	<b>30,907</b>

During 2011 and 2010 the Fund did not increase its capital by means of a public offering on the Bulgarian Stock Exchange.

**BULGARIAN REAL ESTATE FUND ADSIC**  
**NOTES TO THE FINANCIAL STATEMENTS**  
For the year ended 31 December 2011

**10. Share capital, share premium and reserves (continued)**

**10.1. Share capital (continued)**

The ownership structure of the authorized share capital of the Fund as at 31 December 2011 is as follows:

	Number of shares (thousand)	Shareholding percentage
Unicredit Bank Austria AG	8,937	14.78%
Danube Invest Oy	6,097	10.09%
ING Universal Pension Fund	3,471	5.74%
Swedbank AS Clients	3,014	4.98%
ZYPF Allianz Bulgaria	2,977	4.93%
Universal Pension Fund Doverie AD	2,622	4.34%
Swedbank AS	2,078	3.44%
Skand Enskilda Banken	2,050	3.39%
DPF Allianz Bulgaria	1,498	2.48%
BI Finance EOOD	1,235	2.04%
UPF DSK Rodina AD	1,152	1.91%
Danske Invest-Eastern Europe Convergence	1,145	1.89%
SEB Progressivne Pensionifond	1,032	1.71%
Globus Balistic EOOD	1,015	1.68%
Chavdar Ivanov Donkov	908	1.50%
Balkan Holdings (Cyprus) Limited	894	1.48%
ING Voluntary Pension Fund	872	1.44%
Shareholdings of less than 1.4% interest	19,453	32.18%
	<b>60,450</b>	<b>100%</b>

**10.2. Share premium**

As at 31 December 2011 share premium amounts to EUR 5,016 thousand (2010: EUR 5,016 thousand), representing the excess of the proceeds of the issue of new shares in 2006 over their nominal value.

**BULGARIAN REAL ESTATE FUND ADSIC**  
**NOTES TO THE FINANCIAL STATEMENTS**  
For the year ended 31 December 2011

**11. Long-term interest bearing loans**

	Nominal interest rate %	Maturity	2011 <i>EUR thousand</i>	2010 <i>EUR thousand</i>
<b>Current portion</b>				
(1) EUR 7,000 thousand investment bank loan, at nominal value	1 month Euribor +1.6%	December 2012	770	728
Interest payable			12	13
			<u>782</u>	<u>741</u>
(2) EUR 5,000 thousand investment bank loan, at nominal value	the higher of 3 month Euribor+5%, or 8 %	December 2011	-	434
Interest payable			-	2
			<u>-</u>	<u>436</u>
<b>Total current portion</b>			<u><b>782</b></u>	<u><b>1,177</b></u>
<b>Non-current portion</b>				
(1) EUR 7,000 thousand investment bank loan, at nominal value	1 month Euribor +1.6%	December 2016	3,547	4,317
Adjustment to amortized cost			(17)	(25)
			<u>3,530</u>	<u>4,292</u>
(2) EUR 5,000 thousand investment bank loan, at nominal value	the higher of 3 month Euribor+5%, or 8 %	October 2018	-	4,102
Adjustment to amortized cost			-	(65)
			<u>-</u>	<u>4,037</u>
<b>Total non-current portion</b>			<u><b>3,530</b></u>	<u><b>8,329</b></u>

*(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 2011 of EUR 10,815 thousand (2010: EUR 10,825 thousand), present and future receivables under operating lease agreements of commercial properties and promissory notes to the amount of EUR 7,000 thousand together with the interest at 5% on this amount. The loan is repayable in monthly instalments due on 14<sup>th</sup> of each month. Maturity analysis of the loan based on contractual undiscounted payments is provided in Note 18.

*(2) EUR 5,000 thousand investment bank loan*

The purpose of the loan was to refinance expenses incurred in relation to the start of the operating activities of trading property (office building and the underlying land). In 2011 the loan was repaid with the funds received from sale of the trading property.

**BULGARIAN REAL ESTATE FUND ADSIC**  
**NOTES TO THE FINANCIAL STATEMENTS**  
For the year ended 31 December 2011

**12. Derivative financial instrument**

	<u>2011</u>	<u>2010</u>
	<i>EUR thousand</i>	<i>EUR thousand</i>
Liability on interest rate swap reported in the statement of financial position	<u>342</u>	<u>351</u>
Unrealised gain on interest rate swap reported in income statement	<u>9</u>	<u>24</u>

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

The Fund concluded a contract to secure its contingent obligations under the interest swap agreement in the event of default up to the amount of EUR 700 thousand with the same bank. This contract has the same term as the underlying interest swap agreement. In 2011 the Fund did not default under the swap agreement.

**13. Provision for dividends due**

	<u>2011</u>	<u>2010</u>
	<i>EUR thousand</i>	<i>EUR thousand</i>
Provision for dividends due	6,390	1,163
Provision for withholding tax	<u>191</u>	<u>62</u>
	<u><b>6,581</b></u>	<u><b>1,225</b></u>
<b>Dividend per share, gross (in Euro)</b>	<u><b>€ 0.109</b></u>	<u><b>€ 0.020</b></u>

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

Based on the Fund's financial performance for the years ended 31 December 2011 and 2010, 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.

**BULGARIAN REAL ESTATE FUND ADSIC**  
**NOTES TO THE FINANCIAL STATEMENTS**  
For the year ended 31 December 2011

**14. Trade and other payables**

	2011	2010
	<i>EUR thousand</i>	<i>EUR thousand</i>
Payables to the Management Company	215	452
- management and success fee payable	88	29
- payables related to construction works	101	386
- other payables	26	37
Payables to suppliers	482	20
Accrued liability for claims related to construction contracts	176	176
Payables to tenants	40	-
Liabilities for operating lease incentives	-	38
Value added tax payable	-	19
Other payables	44	49
	<u>957</u>	<u>754</u>

Terms and condition of the financial liabilities are:

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

**15. Related party disclosures**

During the year, the Fund entered into transactions with related parties. These transactions along with the related balances as at 31 December 2011 and 2010 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.

**15.1. Fees and payables to Management Company**

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

### **15.1. Fees and payables to Management Company (continued)**

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

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

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

For the year ended 31 December 2011 management fees charged were EUR 585 thousand (2010: EUR 591 thousand) while related payables to the Management company as at 31 December 2011 were EUR 72 thousand (2010: EUR 39 thousand).

For the year ended 31 December 2011 success fees charged were EUR 1,441 thousand (2010: EUR 47 thousand) while related payables to the Management company as at 31 December 2011 were EUR 16 thousand (2010: nil).

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

### **15.2. Directors' remunerations and Board expenses**

The Directors are entitled to remuneration for their services at rates determined by the General Meeting of Shareholders. In addition, Directors are reimbursed for reasonable travelling, hotel and other incidental expenses in respect of attending meetings of the Directors or General Meetings of the Fund. The Director's fees vary from one to ten minimal monthly salaries for Bulgaria. For the year ended 31 December 2011 Director's fees were EUR 25 thousand, thereof social securities in the amount of EUR 3 thousand (2010: EUR 15 thousand, thereof social securities in the amount of EUR 3 thousand).

### **16. Earnings per share**

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

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

	<u>2011</u>	<u>2010</u>
	<i>EUR thousand</i>	<i>EUR thousand</i>
Profit for the year	5,758	359
Weighted average number of ordinary shares (in thousand)	<u>60,450</u>	<u>60,450</u>
<b>Basic earnings per share (in Euro)</b>	<b><u>€ 0.095</u></b>	<b><u>€ 0.006</u></b>

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

## 17. Commitments

### Operating lease commitments – Fund as a lessor

#### *Lease of commercial properties (investment properties)*

The Fund has entered into two commercial property leases. These leases 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 nine monthly lease payments.

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

	<u>2011</u>	<u>2010</u>
	<i>EUR thousand</i>	<i>EUR thousand</i>
Within one year	1,082	1,082
After one year but not more than five years	4,085	4,327
More than five years	-	841
	<u><b>5,167</b></u>	<u><b>6,250</b></u>

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

#### *Lease of agricultural land (investment properties)*

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

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

	<u>2011</u>	<u>2010</u>
	<i>EUR thousand</i>	<i>EUR thousand</i>
Within one year	3	210
After one year but not more than five years	6	128
More than five years	5	-
	<u><b>14</b></u>	<u><b>338</b></u>

## 18. Financial risk management objectives and policies

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

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

#### *Market risk on investment properties*

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

**BULGARIAN REAL ESTATE FUND ADSIC**  
**NOTES TO THE FINANCIAL STATEMENTS**  
For the year ended 31 December 2011

**18. Financial risk management objectives and policies (continued)**

*Interest rate risk*

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

As at 31 December 2011 the Fund the interest rate risk is limited, as all interest bearing bank loans and deposits are with fixed rates (the interest rate risk of the EUR 7,000 thousand investment loan is minimized by the contracted swap agreement). The contracted swap agreement has no impact on the Fund's equity.

*Liquidity risk*

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

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

<b>As of 31 December 2011</b>	<u>On demand</u> <i>EUR</i> <i>thousand</i>	<u>Less than 3</u> <u>months</u> <i>EUR</i> <i>thousand</i>	<u>3 to 12</u> <u>months</u> <i>EUR</i> <i>thousand</i>	<u>1 to 5</u> <u>years</u> <i>EUR</i> <i>thousand</i>	<u>&gt; 5 years</u> <i>EUR</i> <i>thousand</i>	<u>Total</u> <i>EUR</i> <i>thousand</i>
EUR 7,000 thousand investment bank loan and liability on a derivative financial instrument	-	247	743	3,963	-	4,953
Trade payables	474	40	223	-	-	737
	<u>474</u>	<u>287</u>	<u>966</u>	<u>3,963</u>	<u>-</u>	<u>5,690</u>
<b>As of 31 December 2010</b>	<u>On demand</u> <i>EUR</i> <i>thousand</i>	<u>Less than 3</u> <u>months</u> <i>EUR</i> <i>thousand</i>	<u>3 to 12</u> <u>months</u> <i>EUR</i> <i>thousand</i>	<u>1 to 5</u> <u>years</u> <i>EUR</i> <i>thousand</i>	<u>&gt; 5 years</u> <i>EUR</i> <i>thousand</i>	<u>Total</u> <i>EUR</i> <i>thousand</i>
EUR 7,000 thousand investment bank loan and liability on a derivative financial instrument	-	246	742	3,961	992	5,941
EUR 5,000 thousand investment bank loan	-	192	582	3,106	2,209	6,089
Trade payables	70	2	400	-	-	472
	<u>70</u>	<u>440</u>	<u>1,724</u>	<u>7,067</u>	<u>3,201</u>	<u>12,502</u>



## **18. Financial risk management objectives and policies (continued)**

### *Foreign currency risk*

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

### *Credit risk*

Credit risk is the risk that an issuer or counterparty will be unable to meet the commitments that it has entered into with the Fund. It is the Fund's policy to enter into financial instruments with a diversity of creditworthy counterparties. In order to secure its receivables on contracts for rent of 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 one customer and the Fund has to utilize the amount from an escrow account during the first half of 2012.

The Fund's maximum exposure to credit risk in the event the counterparties fail to perform their obligations as at 31 December 2011 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.

	<u>2011</u>	<u>2010</u>
	<i>EUR</i>	<i>EUR</i>
	<i>thousand</i>	<i>thousand</i>
Share capital	30,907	30,907
Share premium	5,016	5,016
Retained earnings	1,124	1,947
Total equity	<u>37,047</u>	<u>37,870</u>
Investment properties, including held for sale and trading properties	26,701	47,881
Long-term interest bearing loans (long and short-term portion)	4,312	9,506
Equity to long-term debt	8.59	3.98
Investment properties, including held for sale and trading properties to equity	0.72	1.26
Market capitalization	20,337	16,226

**BULGARIAN REAL ESTATE FUND ADSIC**  
**NOTES TO THE FINANCIAL STATEMENTS**  
For the year ended 31 December 2011

**19. Fair value of financial instruments**

**Fair values**

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

	<i>Carrying amount</i>		<i>Fair value</i>	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
	<i>EUR</i>	<i>EUR</i>	<i>EUR</i>	<i>EUR</i>
	<i>thousand</i>	<i>thousand</i>	<i>thousand</i>	<i>thousand</i>
<i>Financial assets</i>				
Trade and other receivables	1,355	830	1,355	830
Cash and short-term deposits	21,169	595	21,169	595
<i>Financial liabilities</i>				
Long-term interest bearing loans	4,312	9,506	4,312	9,506
Derivative financial instrument	342	351	342	351
Trade payables	737	472	737	472

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\*:

<b>31 December 2011</b>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<b>Total fair value</b>
	<i>EUR'000</i>	<i>EUR'000</i>	<i>EUR'000</i>	<i>EUR'000</i>
Derivative - interest rate swap	-	342	-	<b>342</b>
<b>31 December 2010</b>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<b>Total fair value</b>
	<i>EUR'000</i>	<i>EUR'000</i>	<i>EUR'000</i>	<i>EUR'000</i>
Derivative - interest rate swap	-	351	-	<b>351</b>

## **19. Fair value of financial instruments (continued)**

### **Fair value hierarchy (continued)**

\* Explanation of the fair value hierarchy:

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

## **20. Events after the reporting date**

There are no subsequent events between the reporting date and the date these financial statements have been authorised for issue that would require adjustment and/or disclosure in the financial statements of Bulgarian Real Estate Fund ADSIC for the year ended 31 December 2011.