

**ADVANCE TERRAFUND REIT**

INTERIM FINANCIAL STATEMENT

30 June 2011

ADVANCE TERRAFUND REIT

STATEMENT OF FINANCIAL POSITION

As of 30 June 2011

All amounts are in BGN thousand, unless indicated otherwise

	<u>Note</u>	<u>As of 30.06.2011</u>	<u>As of 31.12.2010</u>
<b>ASSETS</b>			
Investment property	4	110,927	127,927
Non-current assets held for sale	5	7,281	752
Rent and other receivables	6	7,143	3,817
Advances to suppliers		1,906	1,884
Cash and cash equivalents	7	43,711	23,317
<b>TOTAL ASSETS</b>		<u>170,968</u>	<u>157,697</u>
<b>LIABILITIES</b>			
Current liabilities	8	8,082	5,179
<b>TOTAL LIABILITIES</b>		<u>8,082</u>	<u>5,179</u>
<b>NET ASSETS</b>		<u>162,886</u>	<u>152,518</u>
<b>CAPITAL</b>			
Core capital		85,110	85,110
Premiums from issues		43,411	43,411
Non-allocated profit		34,365	23,997
<b>TOTAL CAPITAL</b>		<u>162,886</u>	<u>152,518</u>

The interim financial statement is approved by the Board of Directors and signed on behalf of Advance Terrafund REIT on 26 July 2011 by:

\_\_\_\_\_  
Radoslav Manolov  
Executive Director

\_\_\_\_\_  
Yoana Georgieva  
Chief Accountant

The enclosed Notes are an integral part of this financial statement.

ADVANCE TERRAFUND REIT

STATEMENT OF COMPREHENSIVE INCOME

For the period ending 30 June 2011

All amounts are in BGN thousand, unless indicated otherwise

	Note	The period ended 30.06.2011	The period ended 30.06.2010
Revenues from interest rates		776	759
Revenues from sales and exchange of investment property		24,028	315
Book value of the sold property		13,716	(182)
		<u>10,312</u>	<u>133</u>
Revenues from lease and rent of investment property	4	2,978	2,798
Other revenues		43	13
OPERATING REVENUES		<u>14,109</u>	<u>3,703</u>
Costs for materials		-	(2)
Costs for hired services	10	(3,582)	(1,510)
Costs related to the personnel		(56)	(57)
Loss from subsequent valuation of investment property, net	4	(29)	-
Financial costs		(1)	(2)
Other costs		(10)	(1)
OPERATING COSTS		<u>(3,678)</u>	<u>(1,572)</u>
NET PROFIT/(LOSS)		<u>10,431</u>	<u>2,131</u>
Other comprehensive income		-	-
TOTAL COMPREHENSIVE INCOME		<u>10,431</u>	<u>2,131</u>
Income per share (BGN)	14	0.12	0.025

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ADVANCE TERRAFUND REIT

STATEMENT OF CASH FLOWS

FOR THE PERIOD ENDING 30 JUNE 2011

All amounts are in BGN thousand, unless indicated otherwise

	<u>The period ended 30.06.2011</u>	<u>The period ended 30.06.2010</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Purchase of investment property	(4,374)	(4,343)
Payments related to commercial partners	(677)	(497)
Revenues from rent and sales	26,743	1,112
Payments related to labor remunerations	(55)	(56)
Interest received	647	587
Other cash flows from core activities	(1,889)	(1,525)
<b>TOTAL CASH FLOWS FOR OPERATING ACTIVITIES</b>	<u>20,395</u>	<u>(4,722)</u>
<b>CASH FLOWS FROM FINANCIAL ACTIVITIES</b>		
Other cash flows from financial activities	(1)	(2)
<b>TOTAL CASH FLOWS FOR FINANCIAL ACTIVITIES</b>	<u>(1)</u>	<u>(2)</u>
<b>NET DECREASE OF CASH AND CASH EQUIVALENTS</b>	20,394	(4,724)
<b>CASH AND CASH EQUIVALENTS AT THE START OF THE PERIOD</b>	<u>23,317</u>	<u>29,287</u>
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD</b>	<u>43,711</u>	<u>24,563</u>

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ADVANCE TERRAFUND REIT

STATEMENT OF CHANGES IN EQUITY  
FOR THE PERIOD ENDING 30 JUNE 2011

All amounts are in BGN thousand, unless indicated otherwise

	Core capital	Premiums from issues	Accumulated profit/(loss)	Total
BALANCE ON 31 JANUARY 2010	85,110	43,411	25,898	154,419
Total comprehensive income for 2010	-	-	2,438	2,438
Dividend			(4,339)	(4,339)
BALANCE AS OF 31 DECEMBER 2010	<u>85,110</u>	<u>43,411</u>	<u>23,997</u>	<u>152,518</u>
Total comprehensive income up to 30.06.2011	-	-	10,431	10,431
Dividend	-	-	(63)	(63)
BALANCE AS OF 30 JUNE 2011	<u>85,110</u>	<u>43,411</u>	<u>34,365</u>	<u>162,886</u>

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## **BACKGROUND**

### **Advance Terrafund REIT**

Advance Terrafund REIT (“The Company”) is a public joint-stock company established at the Constituent Assembly from 12 April 2005, with initial capital amounting to BGN 500 thousand, allocated into 500,000 shares with par value of BGN 1 each. The Company was re-registered in the Trade Register of the Registration Agency under UIC 131418187. The seat and management address of the Company is 1 Zlatovruh Str., Sofia.

The Company’s subject of activity is investment of funds raised through public offering of securities in real estate (securitization of real estate) through purchase of right of ownership and other material rights on real estate and building constructions and improvements to them, with the purpose of their management, rental, leasing, and/or sale.

The special purpose legislation related to the activity of the Company is contained and arises mainly from the Act on the Special Investment Purpose Companies (ASIPC) and the Act on the Public Offering of Securities (APOS). On the basis of them the Company is subject to regulation by the Financial Supervision Commission (FSC). The Company obtained license № 10-ДСИЦ/08.12.2005, issued on the basis of Decision № 452-ДСИЦ from 14 July 2005 of the Financial Supervision Commission.

The Company has been established for an unlimited term.

The Company has a one-tier management system. The Board of Directors (BD) of the Company is composed of: Radoslav Iliev Manolov – Executive Director, Borislav Vitanov Petkov – Chairman of the BD and Nencho Invanov Penev – Member of the BD.

Karoll Finance EOOD is the servicing company of Advance Terrafund REIT, which as of 30 June 2011 is a shareholder holding 19.12% of the capital of Advance Terrafund REIT, rendering consultancy and other services, such as administrative, accounting and human resources services.

After the establishment of the company in 2005, five subsequent increases of the capital of the Company have been carried out, and as of 30 June 2011 the capital of the Company amounts to BGN 85,110,091.

### **Investment strategy, objectives and restrictions of the Company**

Advance Terrafund REIT is a joint-stock company with the special investment purpose of securitization of real state. The Company has the right to acquire material rights only on agricultural, urbanized and forestry real estate located on the territory of the Republic of Bulgaria. As per the Statutes of Advance Terrafund REIT adopted at the Constituency Assembly of the Company from 12 April 2005, its investment objectives are:

- Providing its shareholders with the opportunity to invest in a diversified portfolio of real estate, acting on the principle of risk allocation;
- Ensuring for its shareholders retention and increase of the value of their investments through the realization of a stable income under a balanced risk allocation.

## 1. BACKGROUND (CONTINUED)

The strategy of the Company provides for investments in real estate meeting the requirements of Article 9 of the Statutes of Advance Terrafund REIT with the objective of receiving current revenues from rental and leasing contracts, transferred right of use and from the sale of these estates, with a view of the formation of a stable income. In order to achieve its main objective the Company may apply appropriate strategies to safeguard against market and currency risks.

Financial objectives:

- Ensuring a steadily increasing current income for the shareholders in the form of cash dividend through renting out the owned land;
- Maximizing the value of the investments of the shareholders through continuous active management of the Company's assets and acquisition/sale of agricultural land;
- Diversification of the portfolio of agricultural lands through investment in various types of agricultural real state (arable land, perennial plants, vineyards, etc.), located in various regions of the Republic of Bulgaria with the aim of reducing the non-systematic risks of the investment portfolio;
- Providing liquidity for the shareholders of the Company through listing of the shares of Advance Terrafund REIT for trade at Bulgarian Stock Exchange - Sofia;
- Making the necessary capital increases with the aim of structuring a balanced portfolio of real estate.

The investment policy of the Company provides that it invests the raised capital in real estate defined through their main and specific designation, as per the territory planning schemes and the detailed territory plan as follows:

- Real estates in urbanized territories /towns and villages / – designated for residential, public service, manufacturing, warehousing, resort, country housing, sports and entertainment functions;
- Real estate in agricultural territories – arable land /fields, orchards and vegetable gardens, vineyards, meadows, etc. / and non-arable lands;
- Land in forest territories – forests and forestry lands;

According to the investment policy of the Company the investments in land represent up to 90% of the book value of the assets of the Company for the respective year, as per its annual financial statements.

The Company has the following options for investment of its free funds:

- Securities issued or guaranteed by the Bulgarian State and bank deposits – no restrictions;
- Mortgage bonds issued following the procedures and terms of the Mortgage Bonds Act – up to 10% of the Company's assets.

The Act on the Special Investment Purpose Companies also allows for investments of up to 10% of the Company's capital in one or more servicing companies.

## **2. BASIS FOR DRAFTING OF THE FINANCIAL STATEMENTS**

The Company prepares and presents its financial statements on the basis of the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and the interpretations on their application issued by the International Financial Reporting Interpretations Committee (IFRIC), adopted by the Commission of the European Union (The Commission) and applicable in the Republic of Bulgaria.

ASIPC requires the investment property of the Company is valued at the end of each year. At the end of each financial year the investment property is valued by a licensed independent appraiser attested by the Ministry of Agriculture on the basis of Article 20, Paragraphs 1 and 2 of ASIPC. For the valuation of the investment property of the Company as of 31 December 2010 the independent auditor used the fair market value model.

The present financial statements are prepared in compliance with the convention of the historic price, with the exclusion of the investment property revaluated according to fair value. The other financial assets and liabilities and the non-financial assets and liabilities are accounted for according to depreciated or historic value.

### **Accounting assumption and accounting estimates**

The drafting of the financial statements requires from the management to make estimates and assumptions which influence the book value of the assets and liabilities as of the date of the statement of financial position and the amount of the revenues and costs during the reported period, as well as on the disclosure of contingent assets and liabilities. Although these estimates are based on the most precise estimation of the current events by the management and the available information as of the date of issuance of the financial statements, the actual future results may differ from the estimates.

The main source of uncertainty for the Company regarding the assumptions and estimates is the assessment of the fair value of the investment property (see Note 3). The valuation for 2010 was made in the conditions of a lack of representative and official agricultural market information about the price levels of agricultural land, rental levels and yields by region, etc.

### **Functional currency and representation currency**

According to the requirements of the Bulgarian accounting legislation the company keeps accounts and drafts its financial statements in the national currency of the Republic of Bulgaria – the Bulgarian lev, which is the functional currency of the Company. From 1 January 1999, the Bulgarian lev has been pegged to the euro at an exchange rate of BGN 1.95583 = EUR 1.

## **3. KEY ELEMENTS OF THE ACCOUNTING POLICY**

### **Investment property**

The investment property in which the Company invests is land, held for revenues in the form of rent and with the purpose of capital increase.

The investment property is valued initially according to prime cost, including the price of acquisition and all direct costs related to the acquisition of the property.

The subsequent costs related to the investment property which has already been recognized are added to the book value of the investment property when it is probable that the company will receive future



economic benefits exceeding the initially valued norm of performance of the existing investment property

### 3. KEY ELEMENTS OF THE ACCOUNTING POLICY (CONTINUED)

Subsequent valuations of the investment properties are made using the fair value model which values an investment property after an initial valuation according to acquisition price, with adjustments to the fair value, recognized in the statement of comprehensive income as profit and loss for the year.

At the end of each financial year the investment property is valued by a licensed independent appraiser.

The Company rents out its investment property, respectively retaining all considerable risks and benefits arising from the ownership of this property.

#### **Non-current assets held for sale**

The Company classifies non-currents asset as held for sale when its carrying amount will be recovered through sale rather than through continuing use. In order for this to be the case, the asset must be available for immediate sale in its present condition and the sale is likely to be implemented within 12 months. These assets are presented separately in the statement of financial position.

The Company estimates assets classified as held for sale at the lower of their carrying value immediately after their designation as held for sale and their fair value less costs to sell them.

#### **Cash and cash equivalents**

Cash and cash equivalents include cash on hand and in current accounts and deposits in banks with maturity of up to 12 months. The Management of the Company considers that deposits with maturity of up to 12 months meet the criteria for cash equivalents as they are easily convertible into cash with an immaterial loss of value. These deposits are convertible into cash without a written notice and without the Company being charged indemnities for premature termination.

#### **Financial instruments**

All financial assets and liabilities are valued initially according to fair value, which is the fair value of the paid (for assets) or received (for liabilities) compensation. The financial assets include financial assets reported at fair value as profit or loss, loans and receivables held to maturity and financial assets available for sale. The financial assets reported at fair value as profit or loss are subsequently valued according to fair value, where the changes in the fair value are recognized as profit or loss in the statement of comprehensive income. Financial assets available for sale are valued at fair value, where the changes in the fair value are reported in the statement of comprehensive income as other comprehensive income and are reported as revaluation reserves in the equity. The loans, receivables and financial assets held to maturity are subsequently valued according to depreciated value using the method of the effective interest rate.

The debt and capital instruments are classified respectively as financial liabilities or equity, according to the respective contracts. A capital instrument is any contract which ensures residual value in the assets of the Company after the deduction of all liabilities. Capital instruments are accounted for according to the received returns, net from the issue costs. The financial liabilities are classified either as financial liabilities reported at fair value in the profit or loss, or as other financial liabilities. Each revenue/cost related to financial liabilities reported at fair value is accounted in the profit and loss. The

other financial liabilities, including loans, are initially valued according to fair value, net from the transaction costs. They are subsequently valued according to depreciated value using the method of the effective interest rate, with the costs for interest recognized on the basis of effective profitability

### **3. KEY ELEMENTS OF THE ACCOUNTING POLICY (CONTINUED)**

As of the date of the statement of financial position a review of the available financial assets is made for indications of depreciation or revaluation. In case that there are such indications, the recoverable value of the asset is determined and depreciation loss is recognized.

#### **Operations in foreign currencies**

Transactions denominated in foreign currencies are accounted for in BGN, according to the exchange rate of the Bulgarian National Bank (BNB) on the dates of the respective transactions. The assets and liabilities denominated in foreign currencies are accounted for as of the date of drafting of the statement of financial position, according to the closing exchange rate of BNB.

The profit and loss resulting from exchange rate variations and trade in currency are accounted for in the statement of comprehensive income as profit or loss for the period of their occurrence.

From 1 January 1999 the Bulgarian lev has been pegged to the currency of the European Union, at an exchange rate of EUR 1 for BGN 1.95583. The fluctuations of all other currencies with respect to the BGN reflect the fluctuations of the same currencies with respect to the EUR at the international markets.

The Company does not have significant transactions in currencies different from the BGN and EUR and is not exposed to currency risks.

#### **Revenues from rent**

The revenues from renting out of investment property are recognized in the statement of comprehensive income in compliance with the principle of current accumulation for the term of the contract.

#### **Interest income**

The interest income from deposits is recognized for the current period in the statement of comprehensive income of the Company in compliance with the conditions of the deposit contract. The realized interest from securities held for trade is accounted for as interest income.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE PERIOD ENDING 30 JUNE 2011

All amounts are in BGN thousand, unless indicated otherwise

**4. INVESTMENT PROPERTY**

	Agricultural land	Land in regulation	Property against which there are lawsuits filed	Other	Total
Book value	102,477	20,215	1,177	35	123,904
As of 1 January 2010	8,122	-	-	-	8,122
Acquired during the year	(1,489)	-	(46)	-	(1,535)
Derecognized during the year	(64)	-	64	-	-
Claims filed	(731)	-	-	-	(731)
As of 31 December 2010	<u>108,315</u>	<u>20,215</u>	<u>1,195</u>	<u>35</u>	<u>129,760</u>
Subsequent valuation to fair value	755	(2,554)	(34)	-	(1,833)
As of 31 December 2010	<u>109,070</u>	<u>17,661</u>	<u>1,161</u>	<u>35</u>	<u>127,927</u>
As of 1 January 2011	109,070	17,661	1,161	35	127,927
Acquired during the period	3,273	-	-	-	3,273
Derecognized during the period due to sale	(13,164)	-	-	-	(13,164)
Claims filed	(29)	-	29	-	-
Classified as assets held for sale	(7,080)	-	-	-	(7,080)
As of 30 June 2011	<u>92,070</u>	<u>17,661</u>	<u>1,190</u>	<u>35</u>	<u>110,956</u>
Subsequent valuation to fair value	-	-	(29)	-	(29)
As of 30 June 2011	<u>92,070</u>	<u>17,661</u>	<u>1,161</u>	<u>35</u>	<u>110,927</u>

The fair value of the property with related claims filed is determined as follows:

	Fair value
As of 31 December 2010	1,195
Adjustment to fair value determined by an independent appraiser (see Note 3)	-
Adjustment for events related to lawsuits	(34)
Adjusted as of 31 December 2010	<u>1,161</u>
As of 30 June 2011	1,190
Adjustment for events related to lawsuits	(29)
Adjusted as of 30 June 2011	<u>1,161</u>

**4. INVESTMENT PROPERTY (CONTINUED)**

Adjustments for events relating to lawsuits mainly concern the lawsuit 4270/10650 - ownership right on held regulated landed property in Stara Zagora.

With Decision of the Regional Court of Stara Zagora from 15.10.2010 the claim of an individual against Advance Terrafund REIT was rejected. The decision of the Regional Court of Stara Zagora was appealed before second instance. The Plovdiv Court of Appeal, with a decision from 30 May 2011, confirmed the decision of the Regional Court of Stara Zagora.

Against the decision of the Plovdiv Court of Appeal an appeal was filed with the Supreme Court of Cassation. SCC's ruling on the admissibility of cassation appeal is pending.

In view of the reduced liquidity of the property in 2009 the management decided to adjust the fair value determined by the methodology applied by the independent appraiser (see Note 3) by BGN 286 thousand, which represents 20% of it.

According to data from the legal team the lawsuits against the Company affecting fully or partially the ownership right on 506 decares of agricultural land will be lost, therefore, as of 30 June 2011 the fair value of such property has been adjusted by BGN 137 thousand to zero

As of 30 June 2011 the Company has rental contracts for the economic year 2010-2011 of approximately 246,719 decares of agricultural land. The realized revenues from rent amount to BGN 2,978 thousand and are reported in the statement of comprehensive income.

In comparison, the rental contracts signed as of 30 June 2010 for the previous economic year 2009-2010 were for 250,372 decares of agricultural land and the income realized amounted to BGN 2,798 thousand.

From the start of the reporting period to the end of June 2011 the Company realized the sale of 40,396 decares of agricultural lands at an average price of BGN 595 per decare.

**5. NON-CURRENT ASSETS HELD OF SALE**

As of 30 June 2011 the Company has concluded preliminary contracts for sale by the end of the year of 22,195 decares of agricultural lands which it classified as non-current assets held for sale with book value BGN 7,281 thousand.

**6. RENT AND OTHER RECEIVABLES**

	As of 30.06.2011	As of 31.12.2010
Advances to brokers and partners	1,654	567
Receivables from rent, net depreciation	4,816	2,643
Receivables from interest on deposits in BGN and EUR	550	421
Receivables from indemnities	53	53
Court and adjudicated receivables	28	24
Other	42	109
Total	<u>7,143</u>	<u>3,817</u>

Advance Terrafund REIT ascertained a direct dependence between collecting its receivables from rent from the agricultural producers with the process of their subsidies.

**6. RENT AND OTHER RECEIVABLES (CONTINUED)**

The Company has insured its receivables against non-payment in order to minimize credit risks.  
 The amount of the outstanding receivables from rents is BGN 487 thousand as of 30.06.2011.

**7. CASH AND CASH EQUIVALENTS**

	As of 30.06.2011	As of 31.12.2010
Cash on hand	209	243
Cash in BGN on demand account	5,726	292
Cash in BGN deposits	32,948	17,954
Cash in EUR deposits	4,828	4,828
Total	<u>43,711</u>	<u>23,317</u>

**8. CURRENT LIABILITIES**

	As of 31.03.2011	As of 31.12.2010
Liabilities to suppliers and brokers	537	113
Received advances	2,069	191
Liabilities to the servicing company (Note 11)	1,381	831
Dividend liability (Note 15)	4,085	4,022
Other	10	22
Total	<u>8,082</u>	<u>5,179</u>

**9. MAIN CAPITAL**

	Number of shares	Par value, BGN	Main capital, BGN thousand
As of 01.01.2010	85,110	1	85,110
Shares issued in 2010	-	-	-
As of 31.12.2010	85,110	1	85,110
Shares issued in 2011	-	-	-
As of 30.06.2011	<u>85,110</u>	<u>1</u>	<u>85,110</u>

**10. COSTS FOR HIRED SERVICES**

	The period ended 30.06.2011	The period ended 30.06.2010
Remuneration of the servicing company	2,422	1,240
Costs for consultancy services	18	6
Costs for commissions	915	117
Costs for insurance of receivables	59	42
Annual fees	7	7
Advertising	14	24
Subsequent costs for management of the real estate	113	33
Other costs and charges	34	41
Total	<u>3,582</u>	<u>1,510</u>

**11. SERVICE CONTRACT**

The Company has a service contract with Karoll Finance EOOD, which holds a share of the authorized capital of the Company amounting to 19.12%. According to the above contract Karoll Finance EOOD provides consultancy and administrative services and human resources services against an annual fee which is calculated as follows:

1. 0.375% of the value of the investment property of the Company according to acquisition price, payable for each quarter;
2. 10% of the receivables of the Company from rent and leasing, calculated at the end of each quarter;
3. 10% of the difference between the sales price and the acquisition price when realizing a sale, provided that an internal rate of return (IRR) amounting to a minimum of 15%, calculated on an annual basis, is reached for the transaction.

The total charge under the service contract amounts to BGN 2,422 thousand and BGN 1,240 thousand as at 30 June 2011 and as of 30 June 2010, respectively.

**12. REMUNERATION OF THE BOARD OF DIRECTORS AND MANAGEMENT**

From the start of the reporting period to the end of June 2011 the Company paid remuneration amounting to BGN 34 thousand to the directors and management of the Company.

The Company does not apply a pension program for its employees or share-based payments.

**13. TRANSACTIONS WITH RELATED PARTIES****For the period 01.01.2011 – 30.06.2011**

	Liability at the start of the period	Charged during the period	Paid during the period	Liability at the end of the period
<b>Consultancy services</b>				
Karoll Finance EOOD (service company under ASIPC)	831	2,422	1,872	1,381

**For the period 01.01.2011 – 30.06.2011**

	Receivable at the start of the period	Charged during the period	Received during the period	Receivable at the end of the period
<b>Leases</b>				
Agro Terra North AD (company under common control)	268	114	211	171
Remuss OOD (company under common control)	252	77	223	106

**13. TRANSACTIONS WITH RELATED PARTIES (CONTINUED)**

For the period 01.01.2010 – 30.06.2010

	Liability at the start of the period	Charged during the period	Paid during the period	Liability at the end of the period
<b>Consultancy services by the service company under ASIPC</b>				
Karoll Finance EOOD (service company under ASIPC)	859	1,240	1,458	641
	Receivable at the start of the period	Charged during the period	Received during the period	Receivable at the end of the period
<b>Leases</b>				
Agro Terra North AD (company under common control)	87	130	-	217
Remuss OOD (company under common control)	140	75	11	204

**14. INCOME PER SHARE**

	The period ended 30.06.2011	The period ended 30.06.2010
Net profit / (loss) (BGN thousand)	10,431	2,131
Daily average weighted number of share	85,110,091	85,110,091
Income per share (BGN)	0.12	0.025

The average weighted number of shares is calculated as a sum of the number of ordinary shares in circulation at the start of the period and the number of ordinary shares in circulation issued during the period, with each number of shares multiplied in advance by an average time factor.

**15. DIVIDEND PER SHARE**

As per ASIPC, Article 10, the Company is obliged to allocated as dividend no less than 90% of the financial result, converted following the procedure outlined in Article 10, Paragraph 3 of the same Act.

With a decision made at a regular annual general assembly of the shareholders held on 16 June 2011, the Company has allocated dividend for 2010 amounting to BGN 4,085 thousand (BGN 0.048 per share).

Book profit, as per the statement of comprehensive income for 2010	<u>2,438</u>
<i>Correction for:</i>	
Costs from subsequent valuation of property, net (article 10, paragraph 3, item 1 of ASIPC)	1,779
Profit from transactions with transfers of title on property (article 10, paragraph 3, item 2 of ASIPC)	(1,048)
Difference between sales price and historic value of property (article 10, paragraph 3, item 3 of ASIPC)	1,300
<i>Corrected financial result for 2010</i>	4,469
Dividend to be allocated - 91.41% of the corrected financial result	<u>91.41%</u>
<b>Dividend liability for 2010</b>	<b><u>4,085</u></b>

## 15. DIVIDEND PER SHARE (CONTINUED)

The Board of Directors of the Company determined the following terms for dividend payments for 2010:

1. Gross amount of the dividend per share – BGN 0.048 ;
2. Net amount of the dividend per share for shareholders natural persons – BGN 0.0456;
3. Selected commercial bank for payment of the dividend – UBB AD;
4. The date as of which the composition of the shareholders is determined as per the requirements of LPOS is 30.06.2011;
5. Manner of payment of the dividend:
  - 5.1. To shareholders whose securities accounts are located in Register A of Central Depository AD (personal accounts), the dividend will be paid through the branch network of UBB AD;
  - 5.2. To shareholders whose securities accounts are located in Register B of Central Depository AD (client sub-account with an investment intermediary), the dividend will be paid through the respective investment intermediary with the cooperation of Central Depository AD;
6. Start date for dividend payments – 10.08.2011;
7. End date for dividend payments – 10.11.2011;
8. After the expiry of the deadline for dividend payments within the five-year prescription period each shareholder who has not received the dividend for 2010 can receive it from the Company in cash or by bank transfer after an express request forwarded to the management address of the Company - 1 Zlatovruh, Lozenets, Sofia or at fax – 02/4008331. Non-received and non-requested dividends after the expiry of the five-year proscription period will be transferred to the Reserve Fund of the Company.

## 16. MANAGEMENT OF THE FINANCIAL RISK

The activity of the Company is exposed to various financial risks: credit risk, interest risk, liquidity risk and market risk (including currency and price risk).

### *Credit risk*

The Company applies credit policies in order to attract clients with credit reputation appropriate for management of investment property, credit history and financial means. The Company is not exposed to a considerable credit risk. The receivables are insured and are monitored regularly with the purpose of undertaking timely measures.

### *Liquidity risk*

The Company monitors its cash flows, the maturity of its debts and its liquidity in order to assess its exposure to liquidity risks. The Company maintains sufficient cash available in order to fund its activity and mitigate the fluctuations of the cash flows. The Company ensures the necessary resources for its activity through public offering of securities and through a number of credit opportunities provided by financial institutions, securing the loans with its own investment property.



## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE PERIOD ENDING 30 JUNE 2011

All amounts are in BGN thousand, unless indicated otherwise

**16. MANAGEMENT OF THE FINANCIAL RISK (CONTINUED)**

	Under 1 month	1-3 months	3 months- 1 year
As of 30 June 2011			
<b>FINANCIAL ASSETS</b>			
Cash and cash equivalents	15,866	13,814	14,031
Advances to brokers and partners	-	1,654	-
Receivables from rent, net from depreciation	412	-	4,404
Advances to suppliers	-	-	1,906
Receivables from interest on deposits	176	222	152
Receivables from indemnities	-	53	-
Court and adjudicated receivables	-	28	-
Other receivables	-	-	42
<b>Total financial assets</b>	<b>16,454</b>	<b>15,771</b>	<b>20,535</b>
As of 30 June 2011			
<b>FINANCIAL LIABILITIES</b>			
Received advances	-	2,062	7
Liabilities to suppliers and brokers	537	-	-
Liabilities to related companies	1,381	-	-
Dividend liability	-	4,085	-
Other liabilities	10	-	-
<b>Total financial liabilities</b>	<b>1,928</b>	<b>6,147</b>	<b>7</b>
As of 31 December 2010			
<b>FINANCIAL ASSETS</b>			
Cash and cash equivalents	3,035	8,428	11,854
Advances to brokers and partners	567	-	-
Receivables from rent, net from depreciation	1,186	-	1,457
Advances to suppliers	-	-	1,884
Receivables from interest on deposits	84	223	114
Receivables from indemnities	-	53	-
Court and adjudicated receivables	-	24	-
Other receivables	4	-	105
<b>Cash and cash equivalents</b>	<b>4,876</b>	<b>8,728</b>	<b>15,414</b>
	Under 1 month	1-3 months	3 months- 1 year
<b>FINANCIAL LIABILITIES</b>			
Received advances	-	97	94
Liabilities to suppliers and brokers	113	-	-
Liabilities to related companies	831	-	-
Dividend liability	-	-	4,022
Other liabilities	22	-	-

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE PERIOD ENDING 30 JUNE 2011

All amounts are in BGN thousand, unless indicated otherwise

Total financial liabilities	<u>966</u>	<u>97</u>	<u>4,116</u>
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*Interest risk*

The value of the assets of the Company depends on the dynamics of the market interest rates. The Company is exposed to risks from fluctuations of the interest rates because the profitability of the interest-bearing assets changes as a result of the changes in the market interest rates. Regarding floating interest rates the Company is exposed to risks depending on the interest rate index to which the respective financial instrument is pegged.

As of 30 June 2011	Under 1 month	1-3 months	3 months -1 year	1-5 years	Non-interest bearing	Total
<b>Assets</b>						
Receivables from brokers	-	-	-	-	1,654	1,654
Other receivables and advances	-	-	-	-	6,845	6,845
Deposit interests	176	222	152	-	-	550
Cash on hand	-	-	-	-	209	209
Cash in banks	15,657	13,814	14,031	-	-	43,502
<b>Total assets</b>	<b>15,833</b>	<b>14,036</b>	<b>14,183</b>	<b>-</b>	<b>8,708</b>	<b>52,760</b>

As of 30 June 2011	Under 1 month	1-3 months	3 months -1 year	1-5 years	Non-interest bearing	Total
<b>Liabilities</b>						
Liabilities to suppliers and brokers	-	-	-	-	537	537
Liabilities to related parties	-	-	-	-	1,381	1,381
Advances received	-	-	-	-	2,069	2,069
Dividend liability	-	-	-	-	4,085	4,085
Other	-	-	-	-	10	10
<b>Total liabilities</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>8,082</b>	<b>8,082</b>

As of 31 December 2010	Under 1 month	1-3 months	3 months -1 year	1-5 years	Non-interest bearing	Total
<b>Assets</b>						
Receivables from brokers	-	-	-	-	567	567
Receivables from rent and advances	-	-	-	-	4,713	4,713
Deposit interests	84	223	114	-	-	421
Cash on hand	-	-	-	-	243	243
Cash in banks	2,792	8,428	11,854	-	-	23,074
<b>Total assets</b>	<b>2,876</b>	<b>8,651</b>	<b>11,968</b>	<b>-</b>	<b>5,523</b>	<b>29,018</b>

	Under 1 month	1-3 months	3 months -1 year	1-5 years	Non-interest bearing	Total
<b>Liabilities</b>						
Liabilities to suppliers and brokers	-	-	-	-	113	113
Liabilities to related parties	-	-	-	-	831	831
Advances received	-	-	-	-	191	191
Dividend liability	-	-	-	-	4,022	4,022
Other	-	-	-	-	22	22
<b>Total liabilities</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>5,179</b>	<b>5,179</b>

**16. MANAGEMENT OF THE FINANCIAL RISK (CONTINUED)***Currency risk*

The Company is exposed to currency risks when carrying out transactions with financial instruments denominated in foreign currencies. The transactions denominated in foreign currencies generate profit and loss from exchange rate variations. As of 30 June 2011 the financial assets and investments are denominated in BGN and EUR and under the conditions of an established currency board in the country the exchange rate of the BGN to the EUR is fixed and does not create currency risks. As of this date the Company has no exposure to currencies different from BGN and EUR.

*Market risk*

The market risk is a systematic risk which influences the value of all assets. It arises from the characteristics of the macroeconomic environment and the status of the capital market in the country. The market risk is beyond the control of the Company and as a whole cannot be diversified. The main method for reduction of the market risk and its components is collection and processing of information about the macroeconomic environment and on this basis – making projections and adjustments of the investment policy to the expected changes in the environment.

The Company invests a minimum of 80% of its portfolio in land designated for agricultural needs and up to 20% in land in urbanized territories. The agricultural land is exposed to low risk from changes in prices and rents. The potential reduction of the prices of agricultural land is favorable for the investment policy of the Company, and the fixed increases of the rental price by 20% as compared to the previous year increase the profitability of the investments. The increased risk in the sector affects mainly real estate designated for building construction and is a result of the global financial crisis. The current situation cannot pose a serious negative effect on the financial state and the results from the activities of the Company; nevertheless the Company has undertaken measures for reduction of the share of land in urbanized areas with the purpose of restriction of the price risk. Advance Terrafund REIT continues to follow its policy for investments in high quality property meeting the needs for development of modern agriculture and renting or leasing out to first-class tenant/lessees/ at conditions favorable for the Company. In order to minimize the risk from default on the rents, the Company insures its receivables.

## Structure of the investment portfolio

	30 June 2011		31 December 2010	
	Fair price	% of the net assets, valued at market price	Fair price	% of the net assets, valued at market price
Agricultural land	92,124	83.05	109,124	85.30
Property in urbanized territories	15,527	14.00	15,527	12.14
Property in regulation	3,276	2.95	3,276	2.56
Total	<u>110,927</u>	<u>100.00</u>	<u>127,927</u>	<u>100.00</u>

**16. MANAGEMENT OF THE FINANCIAL RISK (CONTINUED)**

*Capital risk*

The Company manages its capital aiming to maximize returns for shareholders through optimization of the capital structure. The strategy of the Company remains unchanged since the end of 2010. The capital structure consists of cash and cash equivalents and equity (see notes 7 and 9, respectively).

**17. EVENTS AFTER THE END OF THE REPORTING PERIOD**

As of the date of preparation of these financial statements a part of the receivables under lease and rental contracts amounting to BGN 33 thousand was received.