

ADVANCE TERRAFUND REIT

INTERIM FINANCIAL STATEMENT

31 March 2012

ADVANCE TERRAFUND REIT

STATEMENT OF FINANCIAL POSITION

AS OF 31 MARCH 2012

All amounts are in BGN, unless otherwise indicated

	Note	As of 31.03.2012	As of 31.12.2011
ASSETS			
Investment property	4	149,404	156,087
Non-current assets held for sale	5	6,297	1,096
Rent and other receivables	6	6,362	4,608
Advances to suppliers		1,906	1,906
Cash and cash equivalents	7	53,973	47,625
TOTAL ASSETS		217,942	211,322
LIABILITIES			
Current liabilities	8	22,301	20,946
TOTAL LIABILITIES		22,301	20,946
NET ASSETS		195,641	190,376
CAPITAL			
Core capital		85,110	85,110
Premiums from issues		43,411	43,411
Non-allocated profit		67,120	61,855
TOTAL CAPITAL		195,641	190,376

The interim financial statement is approved by the Board of Directors and signed on behalf of Advance Terrafund REIT on 22 April 2012 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 ENDED 31 MARCH 2012
All amounts are in BGN, unless otherwise indicated

	Note	The period ended 31.03.2012	The year period 31.03.2011
Interest income		615	325
Revenues from sales and exchange of investment property		11,436	8,958
Book value of the sold property		(6,416)	(5,193)
		<u>5,020</u>	<u>3,765</u>
Revenues from lease and rent of investment property	4	1,556	1,562
Other revenues		12	23
OPERATING REVENUES		<u>7,203</u>	<u>5,675</u>
Costs for hired services	10	(1,843)	(1,483)
Costs related to the personnel		(28)	(28)
Loss from subsequent valuation of investment property, net	4	(29)	(29)
Financial costs		(1)	-
Other costs		(37)	(8)
OPERATING COSTS		<u>(1,938)</u>	<u>(1,548)</u>
NET PROFIT		<u>5,265</u>	<u>4,127</u>
Other comprehensive income		-	-
TOTAL COMPREHENSIVE INCOME		<u>5,265</u>	<u>4,127</u>
Income per share (BGN)	14	<u>0.06</u>	<u>0.05</u>

The interim financial statement is approved by the Board of Directors and signed on behalf of Advance Terrafund REIT on 24 April 2011 by:

Radoslav Manolov

Executive Director

Yoana Georgieva

Chief Accountant

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

ADVANCE TERRAFUND REIT

CASH FLOW STATEMENT

For the period ended 31 march 2012

All amounts are in BGN, unless otherwise indicated

	The period ended 31.03.2012	The year period 31.03.2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Purchase of investment property	(5,350)	(2,304)
Payments related to commercial partners	(234)	(214)
Revenues from rent and sales	12,683	10,320
Payments related to labor remunerations	(29)	(28)
Interest received	508	381
Other cash flows from core activities	(1,229)	(854)
TOTAL CASH FLOWS FOR OPERATING ACTIVITIES	6,349	7,301
CASH FLOWS FROM FINANCIAL ACTIVITIES		
Other cash flows from financial activities	(1)	-
TOTAL CASH FLOWS FOR FINANCIAL ACTIVITIES	(1)	-
NET INCREASE/(DECREASE) OF CASH AND CASH EQUIVALENTS	6,348	7,301
CASH AND CASH EQUIVALENTS AT THE START OF THE PERIOD	47,625	23,317
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	53,973	30,618

The interim financial statement is approved by the Board of Directors and signed on behalf of Advance Terrafund REIT on 24 March 2012 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 CHANGES IN EQUITY
FOR THE PERIOD ENDED 31 MARCH 2012
All amounts are in BGN, unless otherwise indicated

	Core capital	Premiums from issues	Accumulated profit/(loss)	Total
BALANCE ON 31 JANUARY 2011	85,110	43,411	23,997	152,518
Total comprehensive income for 2011	-	-	57,232	57,232
Dividend (Note 15)	-	-	(19,374)	(19,374)
BALANCE AS OF 31 DECEMBER 2011	85,110	43,411	61,855	190,376
Total comprehensive income up to 31 March 2012	-	-	5,265	5,265
BALANCE AS OF 31 MARCH 2012	85,110	43,411	67,120	195,641

The interim financial statement is approved by the Board of Directors and signed on behalf of Advance Terrafund REIT on 24 January 2012 by:

Radoslav Manolov
Executive Director

Yoana Georgieva
Chief Accountant

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

1. 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 with the Trade Register of the Registry Agency under UIC 131418187. The seat and management address of the Company are at 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 31 March 2012 is a shareholder holding 18.61% 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 31 March 2012 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 estate (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 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 2011 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). This was made in the conditions of a lack of representative and official agricultural market information for 2011, including 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.

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

3. KEY ELEMENTS OF THE ACCOUNTING POLICY (CONTINUED)

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.

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 ENDED 31 MARCH 2012
 All amounts are in BGN, unless otherwise indicated

4. INVESTMENT PROPERTY

	Agricultural land	Property in regulation	Property against which there are lawsuits filed	Other	Total
Book value					
As of 1 January 2011	109,070	17,661	1,161	35	127,927
Acquired during the year	9,817	-	-	4	9,821
Derecognized during the year	(20,327)	-	(19)	-	(20,346)
Claims filed	(69)	-	69	-	-
Classified as assets held for sale	-	1,142	(1,142)	-	-
As of 31 December 2011	<u>(1,096)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(1,096)</u>
	<u>97,395</u>	<u>18,803</u>	<u>69</u>	<u>39</u>	<u>116,306</u>
Subsequent valuation to fair value					
	43,243	(3,393)	(69)	-	39,781
As of 31 December 2011	<u>140,638</u>	<u>15,410</u>	<u>-</u>	<u>39</u>	<u>156,087</u>
Book value					
As of 1 January 2012					
Acquired during the period	140,638	15,410	-	39	156,087
Derecognized during the period	4,959	-	-	5	4,964
Claims filed	(5,321)	-	-	-	(5,321)
Claims terminated	(47)	-	47	-	-
Classified as assets held for sale	18	-	(18)	-	-
As of 31 March 2012	<u>(6,297)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(6,297)</u>
	<u>133,950</u>	<u>15,410</u>	<u>29</u>	<u>44</u>	<u>149,433</u>
Subsequent valuation to fair value					
			(29)	-	(29)
As of 31 March 2012	<u>133,950</u>	<u>15,410</u>	<u>-</u>	<u>44</u>	<u>149,404</u>

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

	Fair value
As of 31 December 2011	1,195
Adjustment for events related to lawsuits	<u>(34)</u>

ADVANCE TERRAFUND REIT

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE PERIOD ENDED 31 MARCH 2012

All amounts are in BGN, unless otherwise indicated

Adjusted as of 31 December 2011	69
Adjustment for events related to lawsuits	(69)
Adjusted as of 31 December 2011	-
As of 31 March 2012	29
Adjustment for events related to lawsuits	(29)
Adjusted as of 31 December 2012	-

According to data from the legal team the lawsuits against the Company affecting fully or partially the ownership right on 299 decares of agricultural land will be lost, therefore, as of 31 March 2012 the fair value of such property has been adjusted by BGN 116 thousand to zero.

As of 31 March 2012, the Company has signed rental contracts for economic year 2011-2012 for approximately 234,213 decares agricultural land. The realized revenues from rent, amounting to BGN 1,556 thousand, are reported in the statement of comprehensive income. For comparison, the rental contracts signed as of 31 March 2011 for the past economic year - 2010-2011, were for 250,398 decares of agricultural land, with revenues realized from them amounting to BGN 1,562 thousand.

From the start of the reporting period to the end of March 2012, the Company has realized the sale of 12,512 decares of agricultural lands at an average price of BGN 914 per decare.

In 2012, two more lawsuits against the Company regarding the right of ownership on 90 decares agricultural lands in two regions of the district of Vratsa were concluded. The purchase of five properties was declared null and void and the title deed was revoked accordingly. The Company lost any ownership rights on these properties and for this reason they are derecognized by book value (BGN 30 thousand) from the property owned at the end of the period.

5. NON-CURRENT ASSETS HELD FOR SALE

As of 31 March 2012 the Company has concluded preliminary contracts for sale by the end of the year of 12,216 decares of agricultural lands which it classified as non-current assets held for sale with book value BGN 6,297 thousand.

6. RENT AND OTHER RECEIVABLES

	As of 31.12.2011	As of 31.12.2011
Advances to brokers and partners	1,397	960
Receivables from rent, net from depreciation	3,698	2,490
Receivables from interest on deposits in BGN and EUR	1,164	1,056
Receivables from indemnities	53	53
Court and adjudicated receivables	34	35
Other	16	14
Total	6,362	4,608

Advance Terrafund REIT has ascertained a direct dependence of its collection of rental receivables from agricultural producers on the process of their subsidization.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE PERIOD ENDED 31 MARCH 2012
All amounts are in BGN, unless otherwise indicated

The amount of the outstanding rental revenues is BGN 865 thousand and BGN 334 thousand as of 31.03.2012 and 31.12.2011, respectively.

6. RENT AND OTHER RECEIVABLES (CONTINUED)

On 14 September 2009 Advance Terrafund REIT signed a preliminary contract for purchase of a landed property of 38 decares in the area of the town of Veliko Tarnovo. Pursuant to this contract the Company has made an advance payment amounting to BGN 1,879 thousand. (see Note 17).

7. CASH AND CASH EQUIVALENTS

	As of 31.03.2012	As of 31.12.2011
Cash on hand	163	179
Cash in BGN on demand account	4,503	394
Cash in BGN deposits	44,300	42,045
Cash in EUR deposits	5,007	5,007
Total	<u>53,973</u>	<u>47,625</u>

8. CURRENT LIABILITIES

	As of 31.03.2012	As of 31.12.2011
Liabilities to suppliers and brokers	399	110
Received advances	1,193	309
Liabilities to the servicing company (Note 13)	1,385	1,196
Dividend liability (Note 15)	19,314	19,314
Other	10	17
Total	<u>22,301</u>	<u>20,946</u>

9. MAIN CAPITAL

	Number of shares	Par value, BGN	Main capital
As of 01.01.2011	85,110	1	85,110
Shares issued in 2011	-	-	-
As of 31.12.2011	85,110	1	85,110
Shares issued in 2012	-	-	-
As of 31.03.2012	<u>85,110</u>	<u>1</u>	<u>85,110</u>

10. COSTS FOR HIRED SERVICES

	The period ended 31.03.2012	The period ended 31.03.2011
Remuneration of the servicing company	1,385	1,046

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE PERIOD ENDED 31 MARCH 2012

All amounts are in BGN, unless otherwise indicated

Costs for consultancy services	22	18
Costs for commissions	349	297
Costs for insurance of receivables	2	29
Annual fees	4	4
Advertising	9	6
Subsequent costs for management of the real estate	54	59
Other costs and charges	18	24
Total	<u>1,843</u>	<u>1,483</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 18.61%. 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 1,385 thousand and BGN 1,046 thousand as of 31 March 2011 and 31 March 2011, respectively.

12. REMUNERATION OF THE BOARD OF DIRECTORS AND MANAGEMENT

From the start of the reporting period to the end of March 2012 the Company paid remuneration amounting to BGN 17 thousand to the directors and management of the Company, who have not changed since 2011.

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

13. TRANSACTIONS WITH RELATED PARTIES**For the period 01.01.2012 – 31.03.2012**

	Liability at the start of the period	Charged during the period	Paid during the period	Liability at the end of the period
Consultancy services				
Karoll Finance EOOD				
(service company under ASIPC)	1,196	1,385	1,196	1,385

13. TRANSACTIONS WITH RELATED PARTIES (CONTINUED)**For the period 01.01.2012 – 31.03.2012**

	Receivable at the start of the period	Charged during the period	Received during the period	Receivable at the end of the period
Leases				
Agro Terra North AD (company under common control)	301	76	-	377
Remuss OOD (company under common control)	184	42	-	226

For the period 01.01.2011 – 31.03.2011

	Liability at the start of the period	Charged during the period	Paid during the period	Liability at the end of the period
Consultancy services by the service company under ASIPC				
Karoll Finance EOOD (service company under ASIPC)	831	1,046	831	1,046

	Receivable at the start of the period	Charged during the period	Received during the period	Receivable at the end of the period
Leases				
Agro Terra North AD (company under common control)	268	57	-	325
Remuss OOD (company under common control)	252	30	76	206

14. INCOME PER SHARE

	The period ended 31.03.2012	The period ended 31.03.2011
Net profit / (loss)	5,265	4,127
Daily average weighted number of share	85,110,091	85,110,091
Income per share (BGN)	0.06	0.05

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 allocate as dividend no less than 90% of the financial result, converted following the procedure outlined in Article 10, Paragraph 3 of the same Act.

As of 31 December 2011, the Company has charged dividends amounting to BGN 19,311 thousand (BGN 0.2269 per share), which are expected to be paid to the shareholders in 2012, following a decision made by the General Meeting.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE PERIOD ENDED 31 MARCH 2012

All amounts are in BGN, unless otherwise indicated

	Value (BGN thousand)
Book profit, as per the statement of comprehensive income	57,232
<i>Correction for:</i>	
Revenues from subsequent valuation of property, net (article 10, paragraph 3, item 1 of ASIPC)	(39,564)
Profit from transactions with transfers of title on property (article 10, paragraph 3, item 2 of ASIPC)	(16,487)
Difference between sales price and historic value of property (article 10, paragraph 3, item 3 of ASIPC)	20,276
<i>Adjusted financial result</i>	21,457
Dividend to be allocated - 90% of the corrected financial result	90%
Obligation for dividend payment	19,311

15. DIVIDEND PER SHARE (CONTINUED)

As of 31 March 2012 the Company has reported obligations related to unpaid dividends for 2010 and 2009 amounting to BGN 3,289.40 and BGN 207.64 respectively.

16. FINANCIAL RISK MANAGEMENT

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.

As of 31 March 2012 FINANCIAL ASSETS	Under 1 month	1-3 months	3 months- 1 year
Cash and cash equivalents	10,666	8,000	35,307
Advances to brokers and partners	-	1,397	-
Receivables from rent, net from depreciation	536	-	3,162
Advances to suppliers	-	-	1,906
Receivables from interest on deposits	137	223	804
Receivables from indemnities	-	53	-
Court and adjudicated receivables	-	34	-
Other receivables	-	-	16

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE PERIOD ENDED 31 MARCH 2012

All amounts are in BGN, unless otherwise indicated

Total financial assets	11,339	9,707	41,195
As of 31 December 2011			
FINANCIAL LIABILITIES	Under 1 month	1-3 months	3 months- 1 year
Received advances	857	-	336
Liabilities to suppliers and brokers	399	-	-
Liabilities to related companies	1,385	-	-
Dividend liability	3	-	19,311
Other liabilities	10	-	-
Total financial liabilities	2,654	-	19,647

16. MANAGEMENT OF THE FINANCIAL RISK (CONTINUED)

As of 31 December 2011			
FINANCIAL ASSETS	Under 1 month	1-3 months	3 months- 1 year
Cash and cash equivalents	5,073	10,545	32,007
Advances to brokers and partners	-	960	-
Receivables from rent, net from depreciation	866	-	1,624
Advances to suppliers	-	-	1,906
Receivables from interest on deposits	195	234	627
Receivables from indemnities	-	53	-
Court and adjudicated receivables	-	35	-
Other receivables	-	-	14
Total financial assets	6,134	11,827	36,178
FINANCIAL LIABILITIES	Under 1 month	1-3 months	3 months- 1 year
Received advances	-	278	31
Liabilities to suppliers and brokers	110	-	-
Liabilities to related companies	1,196	-	-
Dividend liability	3	-	19,311
Other liabilities	17	-	-
Total financial liabilities	1,326	278	19,342

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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE PERIOD ENDED 31 MARCH 2012

All amounts are in BGN, unless otherwise indicated

16. MANAGEMENT OF THE FINANCIAL RISK (CONTINUED)

	Under 1 month	1-3 months	3 months -1 year	1-5 years	Non-interest bearing	Total
As of 31 March 2012						
Assets						
Receivables from brokers	-	-	-	-	1,397	1,397
Other receivables and advances	-	-	-	-	5,707	5,707
Deposit interests	137	223	804	-	-	1,164
Cash on hand	-	-	-	-	163	163
Cash in banks	10,503	8,000	35,307	-	-	53,810
Total assets	10,640	8,223	36,111	-	7,267	62,241
As of 31 December 2011						
Liabilities						
Liabilities to suppliers and brokers	-	-	-	-	399	399
Liabilities to related parties	-	-	-	-	1,385	1,385
Received advances	-	-	-	-	1,193	1,193
Dividend liability	-	-	-	-	19,314	19,314
Other	-	-	-	-	10	10
Total liabilities	-	-	-	-	22,301	22,301
As of 31 December 2011						
Assets						
Receivables from brokers	-	-	-	-	960	960
Other receivables and advances	-	-	-	-	4,498	4,498
Deposit interests	195	234	627	-	-	1,056
Cash on hand	-	-	-	-	179	179
Cash in banks	4,894	10,545	32,007	-	-	47,446
Total assets	5,089	10,779	32,634	-	5,637	54,139
Liabilities						
Liabilities to suppliers and brokers	-	-	-	-	110	110
Liabilities to related parties	-	-	-	-	1,196	1,196
Received advances	-	-	-	-	309	309
Dividend liability	-	-	-	-	19,314	19,314
Other	-	-	-	-	17	17
Total liabilities	-	-	-	-	20,946	20,946

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 31 March 2012 the financial assets and investments are denominated in BGN and EUR and under the conditions of an established currency board in the

16. MANAGEMENT OF THE FINANCIAL RISK (CONTINUED)

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

	31 March 2012		31 December 2011	
	Fair price	% of the net assets, valued at market price	Fair price	% of the net assets, valued at market price
Agricultural land	133,994	89.69	140,677	90.13
Property in urbanized territories	12,319	8.24	12,319	7.89
Property in regulation	3,091	2.07	3,091	1.98
Total	<u>149,404</u>	<u>100.00</u>	<u>156,087</u>	<u>100.00</u>

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 without change since the end of 2011. The capital structure comprises of cash and cash equivalents and equity (see respectively notes 7 and 9)

17. CONTRACTUAL RECEIVABLES/PAYABLES FOR SALE/PURCHASE OF PROPERTY

In connection with a signed preliminary contract for purchase of a landed property of 38 decare in the area of the town of Veliko Tarnovo (see Note 6), the Company is under obligation to sign a final contract and pay the remainder of the purchase price amounting to BGN 1,879 thousand.

18. EVENTS AFTER THE END OF THE REPORTING PERIOD

Pursuant to Article 223, Paragraph 1 of the Commerce Act, the Board of Director shall convene a regular General Meeting of the shareholders of Advance Terrafund REIT, to be held on 17 May 2012 at 12.00 p.m. at the seat of the Company in Sofia, address: 1 Zlatovruh Str.

In case of lack of quorum on the date announced for the convening of the General Meeting of the shareholders, pursuant to Article 227, paragraph 3 of the Commerce Act, the General Meeting shall be held on 6 June 2012 at 12:00 p.m. at the same place and under the same agenda.