

MINUTES

from the meeting of the Board of Directors of Advance Terrafund REIT

Today, 27 March 2013 in Sofia a meeting of the Board of Directors of Advance Terrafund REIT took place, attended by the members of the Board of Directors as follows:

1. **Borislav Vitanov Petkov** – Chairperson of the Board of Directors;
2. **Radoslav Iliiev Manolov** – Executive Director;
3. **Nencho Ivanov Penev**

All members of the Board of Directors attend personally; therefore the meeting is legal and can make decisions.

The meeting was held as per the following Agenda:

- 1 Discussion of the issue of the convocation of the General Assembly of the shareholders.
2. Miscellaneous;

After a discussion of the items of the Agenda the Board of Directors of Advance Terrafund REIT UNANIMOUSLY

DECIDED:

I. The Board of Directors of Advance Terrafund REIT, pursuant to Article 223, paragraph 1, proposal one, convenes a regular General Assembly of the shareholders of the Company holders of ordinary registered voting shares to be held on 16 May 2013 at 1 Zlatovruh Str., Sofia, 12:00 p.m.

II. The General Assembly will be held under the following **Agenda:**

1. Report on the activities of the company for 2012; draft decision– the GA adopts the report on the activities of the company for 2012.

2. Acceptance of the Certified Accountant's Report on the certified annual financial statements for 2012; draft decision – GA adopts the Certified Accountant's Report on the annual financial statements for 2012.

3. Approval of the certified financial statements for 2012 and making a decision for payment of dividends; draft decision – GA approves the certified financial statements for 2012 and adopts the proposal of the Board of Directors for 99.94% of the profit for financial year 2012 determined following the procedure set out in Article 10, paragraph 3 of the Law on the Special Investment Purpose Companies and in compliance with the requirements of article 247a of the Commerce Act at BGN 41,985,391.15 to be distributed as dividends and sets a gross dividend of BGN 0.493 per share of the capital of the Company.

4. Appointing a Certified Accountant /registered auditor/ for certification of the annual financial statements for 2013; draft decision – GA appoints the proposed by the Board of Directors at the recommendation of the Audit Committee certified accountant – registered auditor Deloitte Audit OOD, part of the international audit and consultancy group Deloitte Touche Tohmatsu, to certify the annual financial report of the Company for 2013.

5. Releasing from liability the members of the Board of Directors for their activities in 2012; draft decision – GA releases the members of the Board of Directors from liability for their activity in 2012.

6. Accepting the report of the Audit Committee on its activities in 2012; draft decision - GA accepts the report of the Audit Committee on its activities in 2012;

7. Re-electing of the members and the chairperson of the Audit Committee of the Company for a mandate of three years and determining its remuneration; draft decision – GA re-elects/appoints an Audit Committee of the Company for a mandate of three years as follows: 1. Kamen Petrov Kamenov – Chairperson of the Audit Committee and independent member; 2. Members of the Audit Committee – the members of the Board of Directors of the Company; Determines the annual remuneration of the Chairperson of the Audit Committee to the amount of BGN 3,000.

8. Report of the Investor Relations Director on his/her activities; draft decision – GA accepts the report of the Investor Relations Director;

9. Miscellaneous

III. All shareholders are invited to attend the Assembly personally or through a proxy. The materials related the Assembly and the respective draft decisions under the Agenda are available to the shareholders at the office of the company at 1 Zhatovruh Str., Sofia. In case of the absence of a quorum pursuant to article 227, paragraph 3 of the Commerce Act the Assembly will be held on 4 June 2013 at **12.00 p.m.** in the same place and **under the same agenda.**

IV. Charges Mr. **Radoslav Iliev Manolov** - Executive Director of the Company to handle the technical issues related to the convocation and holding of the General Assembly.

Members of the Board of Directors:

1. **Borislav Vitanov Petkov**

2. **Radoslav Iliev Manolov**

3. **Nencho Ivanov Penev**

INVITATION

To the regular session of the General Assembly of the shareholders of Advance Terrafund REIT

Pursuant to Article 223, para. 1 of the Commerce Act, the Board of Directors calls a regular General Assembly of the shareholders of Advance Terrafund REIT which is to be held on 16 May 2013 at 12.00 p.m. at the seat of the company in the city of Sofia, address 1 Zlatovruh Str., with the following agenda and proposals for decisions:

- 1. Report on the activities of the company for 2012; draft decision** – the GA adopts the report on the activities of the company for 2012.
- 2. Acceptance of the Certified Accountant's Report on the certified annual financial statements for 2012; draft decision**– GA adopts the Certified Accountant's Report on the annual financial statements for 2012.
- 3. Approval of the certified financial statements for 2012 and making a decision for payment of dividends; draft decision** – GA approves the certified financial statements for 2012 and adopts the proposal of the Board of Directors for 99.94% of the profit for financial year 2012 determined following the procedure set out in Article 10, paragraph 3 of the Law on the Special Investment Purpose Companies and in compliance with the requirements of article 247a of the Commerce Act at BGN 41,985,391.15 to be distributed as dividends and sets a gross dividend of BGN 0.493 per share of the capital of the Company.
- 4. Appointing a Certified Accountant /registered auditor/ for certification of the annual financial statements for 2013; draft decision** – GA appoints the proposed by the Board of Directors at the recommendation of the Audit Committee certified accountant – registered auditor Deloitte Audit OOD, part of the international audit and consultancy group Deloitte Touche Tohmatsu, to attest the annual financial report of the Company for 2013.
- 5. Releasing from liability the members of the Board of Directors for their activities in 2012; draft decision** – GA releases the members of the Board of Directors from liability for their activity in 2012.
- 6. Accepting the report of the Audit Committee on its activities in 2012; draft decision**
- GA accepts the report of the Audit Committee on its activities in 2012;
- 7. Re-electing the members and the chairperson of the Audit Committee of the Company for a mandate of three years and determining its remuneration; draft decision** – GA re-elects/appoints an Audit Committee of the Company for a mandate of three years as follows: 1. Kamen Petrov Kamenov – Chairperson of the Audit Committee and independent member; 2. Members of the Audit Committee – the members of the Board of Directors of the Company; Determines the annual remuneration of the Chairperson of the Audit Committee to the amount of BGN 3,000.
- 8. Report of the Investor Relations Director on his/her activities; draft decision** – GA accepts the report of the Investor Relations Director;
- 9. Miscellaneous**

All shareholders of the company are invited to take part personally or through a proxy.

The written materials for the Assembly will be at the disposal of the shareholders in the city of Sofia, 1 Zlatovruh Str., each working day from 9:30 a.m. to 5:30 p.m. The invitation together with the written materials on the items of the agenda of the Assembly are published at the web page of Advance Terrafund REIT – www.advanceterrafund.bg for the time from the announcement of the invitation in the Trade Register to the closure of the General Assembly.

Persons holding jointly or separately at least 5% of the capital of Advance Terrafund REIT may request the addition of issues and propose decision on already added issues in the agenda of the General Assembly following the procedure outlined in Article 223a of the Commerce Act. Not later than

15 days prior to the opening of the General Assembly these shareholders submit the issues to be added to the agenda and the decision proposals to be announced in the Trade Register. With their announcement in the Trade Register the issues are considered added to the proposed agenda. Not later than the following working day after the announcement the shareholders submit the list of issues, decision proposals and written materials to the seat and management address of the company and to the Financial Supervision Commission.

During the General Assembly the shareholders of the company have the right to raise questions to all items of the agenda and questions regarding the economic and financial state and commercial activities of the company, regardless of whether the latter are related to the agenda.

The registration of the shareholders will be made on the day of the General Assembly from 11:30 a.m. to 12:00 p.m.

For registration and participation in the General Assembly of the shareholders the natural persons – shareholders have to present an identification document. The legal persons – shareholders present a current certificate for commercial registration and an identification document of the lawful representative.

Rules for voting through proxy: in case of representation of a shareholder in the General Assembly pursuant to the provisions of Article 38, para. 2 of the Statutes of the company, it is necessary to present an explicit notarized power of attorney for the specific assembly with the contents under Article 116, para. 1 of the Law on the Public Offering of Securities. In the cases when the legal person is not represented by its lawful representative the proxy presents an identification document, a current certificate for commercial registration of the respective company – shareholder and an explicit notarized power of attorney for the specific Assembly with the contents under Article 116, para. 1 of the Law on the Public Offering of Securities.

In case of representation of a shareholder of the company by a legal person – proxy, apart from an identification document of the proxy company's representative, also a current certificate for commercial registration of the respective proxy company and an explicit notarized power of attorney for the specific Assembly with the contents under Article 116, para. 1 of the Law on the Public Offering of Securities.

Pursuant to Article 116, par. 4 of the Law on the Public Offering of Securities re-authorization with the rights granted to the proxy in accordance with the power of attorney is null and void, as well as power of attorneys granted in violation of the provision of Article 116, para. 1 the Law on the Public Offering of Securities.

The certificate for commercial registration and the power of attorney for representation at the General Assembly of the shareholders issued in a foreign language should be accompanied by a legalized translation into Bulgarian language in compliance with the requirements of the applicable laws. In case of discrepancies between the texts, the data in the Bulgarian translation shall prevail.

The Board of Directors of Advance Terrafund REIT – the city of Sofia submits a template for a written power of attorney in hard and digital copies together with the materials for the General Assembly. The template of the power of attorney will also be available at the web page of the company: www.advanceterrafund.bg.

Advance Terrafund REIT will receive and accept as valid notifications and power of attorneys electronically at the following e-mail: atera@karoll.bg with the electronic messages signed with a universal electronic signature (UES) by the principal and with enclosed electronic document (electronic copy) of the power of attorney which should also be signed with a universal electronic signature (UES) by the principal.

Voting through correspondence and electronic means is not acceptable pursuant to the existing Statutes of Advance Terrafund REIT.

The Board of Directors of Advance Terrafund REIT advises that the total number of shares and voting rights of the shareholders of the company as of the date of the decision of the Board of Directors to convene a General Assembly – 27 March 2013 - is 85,110,091 /eighty-five million, one hundred and ten thousand, ninety-one / ordinary registered dematerialized voting shares with par value of BGN 1

/one/ each. Pursuant to Article 115b, para. 1 of the Law on the Public Offering of Securities the voting right at the General Assembly can be exercised by the persons entered in the registered of Central Depository as shareholders of the company 14 days prior to the date of the General Assembly. The date under the previous sentence for the regular session of the General Assembly of the shareholders of Advance Terrafund REIT Sofia convened on 16 May 2013 is 2 May 2013. Only persons entered as shareholders of the company on this date are entitled to participate and vote at the General Assembly.

In case of lack of quorum on the date announced in this invitation for the convening of the General Assembly of the shareholders, pursuant to Article 227, para. 3 of the Commerce Act, the General Assembly shall be held on 4 June 2013 at 12:00 p.m. at the same place and under the same agenda. The agenda of the new session cannot include items pursuant to 223a of the Commerce Act.

Yours faithfully,

Radoslav Manolov
Executive Director
Advance Terrafund REIT

**TO THE GENERAL ASSEMBLY
OF THE SHAREHOLDERS
OF ADVANCE TERRAFUND REIT**

**REPORT
OF THE AUDIT COMMITTEE OF ADVANCE TERRAFUND REIT
ON THE ACTIVITIES CARRIED OUT IN 2012**

This report of the Audit Committee of Advance Terrafund REIT was prepared on the grounds of Art. 401 of the Independent Financial Audit Act requiring a report on the activities to be presented annually before the General Assembly, along with the approval of the annual financial statements.

The Audit Committee of Advance Terrafund REIT was established by virtue of decision of the General Assembly of the Shareholders dated 02 July 2010, with a mandate of three years and composition.

- Kamen Petrov Kamenov – Chairperson
- Radoslav Iliev Manolov – Member
- Nencho Ivanov Penev – Member
- Borislav Vitanov Petkov – Member

During the reporting period the Audit Committee focused its activities on the fulfilment of the following functions:

1. *Participation in the monitoring of the financial reporting processes of Advance Terrafund REIT:*

- The Financial Accounting Department of the servicing company KAROLL FINANCE EOOD, which performs accounting services for ADVANCE TERRAFUND REIT, provides financial information to the Audit Committee by the 15th day of each month following the reporting month. The information is understandable and reliable and reflects the financial position of the Company.
- The Company prepares quarterly interim financial statements and annual financial statements, which are submitted to the Financial Supervision Commission, and discloses information before the public through the EXTRI Information System within the statutory period.
- During the audited period KAROLL FINANCE EOOD, which performs accounting services for Advance Terrafund REIT, has performed ex-ante control as to the lawfulness, prior to undertaking liabilities or incurring expense as well as over the overall activities of the Company.

2. *Participation in the monitoring of the effectiveness of the internal control and risk management systems of the Company:*

- There is an internal control system in place in the Company which applies various control and risk management systems, facilitating the activities of the management, mitigating the financial, operational and legal risks and contributing to the high quality of the financial statements.
- Advance Terrafund REIT has a one-tier management system with a management body - Board of Directors comprising three individuals.
- The internal work rules are clearly defined as well as the rights and obligations of the executives and employees.
- Authorization and approval of transactions and payments are limited to persons authorized with the respective rights.
- The transactions concluded by the Company are properly documented and the complete documentation is stored in an organised manner.

3. Participation in the monitoring of the independent financial audit of the Company:

- The independent auditor of Advance Terrafund REIT for 2012 is the audit firm Deloitte Audit OOD, represented by Asen Dimov – Audit Partner, Registered Auditor.
- The Audit Committee made sure that the registered auditor of the Company is independent in accordance with the requirements of the Independent Financial Audit Act and the Code of Ethics of the Professional Accountants.

4. Approval of the independent auditor's report

- The Audit Committee has read the report on the audit carried out for 2012 and approved it unanimously without any remarks.

5. Participation in the preparation and presentation to the Assignor of a recommendation regarding the appointment of a registered auditor to perform the independent financial audit of the Company for 2013:

- The Audit Committee has found that there is understanding between the auditor, the management and the Financial Accounting Department, matching of the teams and good joint work. On the grounds of these findings, on the grounds of Art. 40k of the IFAA, the Committee has recommended the appointment of Deloitte Audit OOD as registered auditor of Advance Terrafund REIT in the reporting 2013.

In the course of its operations the Audit Committee can confirm that no weaknesses and irregularities have been found which may impact the true and fair presentation of the operations of Advance Terrafund REIT, as well as its financial results.

This report aims to bring to the shareholders' attention information for the period of the mandate of the Audit Committee and the main principles on the grounds of which operations were carried out.

Audit Committee of Advance Terrafund REIT

27 March 2013

1. Kamen Kamenov
2. Radoslav Manolov.....
3. Nencho Penev.....
4. Borislav Vitanov

R E P O R T

of

Atanas Dimitrov

Investor Relations Director

of Advance Terrafund REIT

for 2012

Dear Shareholders,

During the past 2012 we strived to maintain good, timely and adequate communications with you, those of our potential investors who expressed interest in the Company, as well as the investment community as a whole. In fulfillment of our obligations we presented on a timely basis:

- information about the Company as required under the Law on the Public Offering of Securities to the Financial Supervision Commission, the Bulgarian Stock Exchange, the Central Depository, as well as to all shareholders and investors who requested such information;
- periodic and follow-up information under the Law on the Public Offering of Securities and Ordinance No 2 on prospectuses and disclosure of information by listed entities;
- additional information on the progress of the investment activities to all stakeholders.

The Management of the Company in 2012 initiated the consecutive two meetings and conference calls with the shareholders – in May and November, where were commented the results of the 1-st and the 3-rd quarter of the year and the plans for the activity during the year. In 2012 the Company held many meetings and conference calls with its shareholders, where the results of the activity of the Company were discussed and where the Company

presented information about the current market trends and the implementation of its development plans.

Furthermore, Advance Terrafund REIT was well represented in the media with a number of interviews with the executive director and with publications featuring the activities of the Company.

In addition, the information about the Company, its financial position and investment activities on its web page (www.advanceterrafund.bg) was updated on a monthly basis. The web page is part of the integrated website of financial group Karoll, whose representative – Karoll Finance EOOD is the servicing company of Advance Terrafund REIT.

In fulfillment of the statutory obligations to disclose information to the public in 2012 Advance Terrafund REIT used the website of the Bulgarian Stock Exchange www.x3news.com.

The Investor Relations Director took detailed minutes at the meetings of the Board of Directors of the Company and was fully supported by the Board of Directors in the performance of his obligations.

Our intentions for the current 2013 are to continue to comply with the good practices in our communications with the shareholders and potential investors using all appropriate information channels and striving to ensure the best possible transparency and openness with regard to the Company's operations.

Sofia
25 March 2013

Respectfully yours:



Atanas Dimitrov,
Investor Relations Director,
Advance Terrafund REIT

ADVANCE TERRAFUND REIT

**ANNUAL REPORT OF THE ACTIVITY,
INDEPENDENT AUDITOR'S REPORT AND
ANNUAL FINANCIAL STATEMENTS**

December 31, 2012

(Unofficial translation of the original in Bulgarian)

**ANNUAL REPORT
ON THE ACTIVITIES FOR 2012**

ADVANCE TERRAFUND REAL ESTATE INVESTMENT TRUST

ANNUAL MANAGEMENT REPORT

2012

ADVANCE TERRAFUND REIT

Advance TerraFund REIT (the Company) is a public joint-stock company established at Foundation Meeting held on 12 April 2005 with initial capital amounting to BGN 500,000 divided into 500,000 shares with nominal value of BGN 1 each. The Company is re-entered into the Commercial Register at the Registry Agency under UIC 131418187. The Company has its seat and management address at 1 Zlatovrah Street, 1164 Sofia.

The scope of activity of the Company includes investment of funds raised through public offering of own shares in real properties (securitization of real properties) through purchase of rights of ownership and other material rights on real properties and constructions and related improvements with the purpose of management, rent, lease and/or sale.

The special legislation related to the activity of the Company is contained and arises mainly from the Law on Special Investment Purpose Companies and the Law on Public Offering of Securities. Based on them, the Company is subject to regulation by the Financial Supervision Commission. The Company holds License No 10-SIPC/8 December 2005 issued on the basis of Decision № 452-SIPC dated 14 July 2005 of the Financial Supervision Commission.

The Company is bound by no term of existence.

The Company has one-tier management system. The Board of Directors of the Company is in the following composition: Radoslav Iliev Manolov – Executive Director, Borislav Vitanov Petkov – Chairman of the Board of Directors and Nencho Ivanov Penev – Member of the Board of Directors.

Karoll Finance EOOD, a shareholder owing 19.14% of the capital of Advance TerraFund REIT as of 31 December 2011, provides consulting and other services such as administrative, accounting and recruitment services.

After the incorporation of the Company in 2005, the Company performed five consequent capital increases and its capital as of 31 December 2012 amounts to BGN 85,110,091.

Investment strategy, purposes and limitations of the Company

Advance TerraFund REIT is a joint-stock special investment purpose company (SIPC) for securitization of real properties. The Company has the right to acquire property rights only on agricultural, urban and forest real properties located in the territory of the Republic of Bulgaria. As per the Statutes of Advance TerraFund REIT adopted at the Foundation Meeting of the Company held on 12 April 2005, its investment purposes are:

- To afford its shareholders the opportunity to invest in a diversified portfolio of real properties, following the principle of risk distribution;
- To ensure for its shareholders preservation and increase of the values of their investments through realization of steady income with a balanced risk distribution.

The strategy of the Company envisages investment in real properties meeting the requirements of Article 9 of the Statutes of Advance TerraFund REIT with the purpose of receiving current income from rental, leasing and conceded right of use agreements as well as through the sale of these real properties to generate steady income. In order to achieve

its main purpose, the Company may apply suitable strategies for protection from market and currency risks.

Financial objectives:

- Providing steadily increasing current income for the shareholders in the form of cash dividends through renting out the land owned by the Company;
- Maximizing the value of the shareholders' investments through constant active management of the assets of the Company and acquisition/sale of agricultural properties;
- Diversification of the portfolio of agricultural properties through investment in various types of agricultural property (arable land, land with perennial plants, vineyards, etc.) located in different regions of the Republic of Bulgaria with a view to reducing the non-systematic risks of the investment portfolio;
- Securing liquidity for the shareholders of the Company through listing the shares of Advance TerraFund REIT for trade at Bulgarian Stock Exchange - Sofia;
- Performing the necessary capital increases with the purpose of structuring a balanced portfolio of real properties.

The investment policy of the Company envisages investment of its raised capital in real properties determined on the basis of their main and specific designations as per the development designs and the detailed development plans as follows:

- Lands in urbanized territories /settlements and villages/ designated for residential, public, production, warehousing, resort, recreational and sports functions;
- Lands in agricultural territories – arable land /fields, orchards, vegetable gardens, vineyards, meadows, etc./ and non-arable land;
- Lands in forest territories – forests and forest land.

According to the investment policy of the Company, the investments in land represent up to 90% of the carrying amount 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 – without limitations;
- Mortgage bonds issued according to the procedures and under the provisions of the Law on Mortgage Bonds – up to 10% of the assets of the Company.

The Law on Special Investment Purpose Companies allows investments of up to 10% of the capital of the Company in one or more servicing companies.

1. Information presented in values and quantities about the main categories of goods, products and/or rendered services, indicating their shares in the sales income of the Issuer as a whole and the changes during the reporting financial year

The investment properties of the Company as of 31 December 2012 include agricultural land of approximately 244,124 decares of total value of BGN 118,797 thousand, properties in the

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process of regulation of approximately 128 decares of total value of BGN 12,319 thousand and regulated real property of approximately 11 decares of value of BGN 3,091 thousand, or a total of BGN 134,207 thousand.

The Company has signed rental agreements for agricultural land of approximately 191,183 decares and 239,275 decares as of the end of 2012 and 2011 respectively. The respective income from rent for 2012 and 2011 totalling BGN 5,886 and BGN 6,106 is reported in the income statement.

During the 2012 financial year, the Company realized sales of agricultural land of 79,296 decares at an average price of BGN 873 per decare.

During the past year, five more of the litigations against the Company concerning the right of ownership of agricultural land of 200 decares in three districts of Vratsa, one of Silistra, and one of Targovishte were closed. The purchase of nine properties was announced null and void and the related notary deed was cancelled. The Company lost all rights of ownership of these properties, therefore they have been written off at carrying amount (BGN 79 thousand) at the end of the year.

According to data from the legal team the lawsuits against the Company affecting fully or partially the ownership right on 818 decares of agricultural land will be lost, therefore, as of 31 December 2012 the fair value of such property has been adjusted by BGN 230 thousand to zero.

2. Information about the income divided into separate categories of activities, domestic and foreign markets and information about the sources of supply of materials necessary for the production of goods or rendering of services, indicating the level of dependency for each individual seller or buyer/consumer and information about each person separately, its share in the sales or purchases and its relations with the Issuer in case that the relative share of any of them exceeds 10% percent of the expenses or sales income

	Year ended 31 December 2012	Year ended 31 December 2011
Income from interests	2,652	2,018
Gains on sales and exchanges of investment properties	29,034	16,487
Income from lease and rent of investment properties	5,886	6,106
Income from revaluation of investment properties, net	22,626	39,781
Other income	62	77
OPERATING INCOME	60,260	64,469

ADVANCE TERRAFUND REIT is a joint-stock special investment purpose company for securitization of real properties. The Company functions as a collective scheme for investment in real properties. Securitization of real properties means that the Company purchases real properties with funds raised through the issue of securities /shares, bonds /.

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Pursuant to the provisions of the Law on Special Investment Purpose Companies, the Company has the right to invest its raised funds only within the territory of the Republic of Bulgaria, which excludes foreign markets.

Sources of funding of the activity in 2012 are the funds raised through the capital increase realized in 2008 as well as income from the core activity of the Company.

The Company is not dependent on any buyers or sellers with shares of over 10% of the expenses or income of the Company.

3. Information about major transactions or such of material importance for the activity of the Issuer

In 2012, the Company did not conclude any major transactions or transactions of material importance.

4. Information about related party transactions concluded by the Issuer during the reporting period, proposals for conclusion of such transactions and transactions, which are outside its usual activity or deviate significantly from the market conditions, to which the Issuer or any of its subsidiaries are parties, indicating transaction values, relationship types and any information necessary for evaluation of the impact on the financial position of the Issuer

During the reporting period, Advance TerraFund REIT concluded the following related party transactions:

Consulting services	Payable at the beginning of the period	Amounts charged during the period	Amounts paid during the period	Payable at the end of the period
Karoll Finance EOOD	1,196	7,649	7,837	1,008

Rents	Receivable at the beginning of the period	Amount charged over the period	Amount received during the period	Receivable at the end of the period
Agro Terra Seyer AD	301	310	228	383
Remuss OOD	184	173	142	215

During the reporting period, the Company did not receive any proposals for conclusion of transactions, which are outside its usual activity or deviate significantly from the market conditions. The Company has no subsidiaries and has no rights to establish such.

5. Information about events and indicators of nature unusual for the Issuer, having material impact on its activity and the realized income or incurred expenses and evaluation of their impact on the results for the current year

In 2012, there were no events or indicators of unusual nature for the Company.

6. Information about off-balance sheet transactions – nature and business purpose, indicating the financial impact of the transactions on the activity if the risks and benefits related to such transactions are material for the Issuer and if the disclosure of this information is material for the evaluation of the financial position of the Issuer

The Company has no any off-balance sheet transactions.

7. Information about participating interests of the Issuer, its main investments in the country and abroad (in securities, financial instruments, intangible assets and real properties) and investments in share securities outside its economic group and sources/means of financing.

The Company has no participating interest or investment in share securities.

7.1. Sources of funding of Advance TerraFund REIT

- Share capital

The capital of Advance TerraFund REIT amounts to BGN 85,110,091 divided into 85,110,091 ordinary registered dematerialized shares, each having nominal value of BGN 1.

By the end of the reporting period, the Company successfully performed five increases in the capital, which is fully paid in the form of contributions in cash.

Revenues from core activities are generated from renting and sale of property.

- Bank loans

The Company had no due bank loan liabilities at the end of the reporting period.

7.2. Investment properties of Advance TerraFund REIT

The investment properties of the Company as of 31 December 2012 include agricultural land of approximately 244,124 decares of total value of BGN 118,797 thousand, properties in the process of regulation of approximately 128 decares of total value of BGN 12,319 thousand and regulated real property of approximately 11 decares of value of BGN 3,091 thousand, or a total of BGN 134,207 thousand.

The Company has signed rental agreements for agricultural land of approximately 191,183 decares and 239,275 decares as of the end of 2012 and 2011 respectively. The respective income from rent for 2012 and 2011 totalling BGN 5,886 and BGN 6,106 is reported in the income statement.

Land categorization:

The agricultural land in Bulgaria is assigned average agricultural rating aimed to evaluate the suitability of the land for growing of agricultural crops. According to suitability, it ranges from

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1 to 10. Category 1 is the most suitable for agriculture and category 10 is the most unsuitable. Most of the agricultural land in Bulgaria falls within categories 3 to 6 and most of the land purchased by the Company is in these categories.

Table No 1: Allocation of the land purchased by ADVANCE TERRAFUND REIT by categories.

Land category	Area in decares	% of the total area of purchased land
1	131	0,05 %
2	6 816	2,79 %
3	74 834	30,65 %
4	90 398	37,03 %
5	46 345	18,98 %
6	17 240	7,06 %
7	4 735	1,94 %
8	841	0,34 %
9	1 674	0,69 %
10	1 110	0,45 %
TOTAL	244 124	100%

In the process of land selection, the Company has focused on investments in regions of the country characterized with well developed rental relations, the allocation of which is given in Table No 2.

Table No 2: Allocation of the land purchased by ADVANCE TERRAFUND REIT by regions

REGION	PURCHASED LAND IN DECARES	% OF THE TOTAL AREA
Northwestern	48 163	19.73 %
Central Northern	60 011	24.58 %
Northeastern	95 868	39.27 %
Southeastern	13 505	5.53 %
Central Southern	26 576	10.89 %

8. Information about transactions concluded by the Issuer, any of its subsidiaries or the parent company in the capacity of borrowers, loan agreements and their terms and conditions, including repayment deadlines and information about guarantees given and obligations undertaken

As of 31 December 2012, the Company had no liabilities under loan agreements.

9. Information about agreements signed by the Issuer, any of its subsidiaries or the parent company in the capacity of lenders, loan agreements, indicating provision of guarantees of any kind, including guarantees to related parties and the specific terms and conditions of such agreements, including repayment deadlines and loan purposes

The Company has not signed any loan agreements in the capacity of lender and has not provided any guarantees to third parties.

10. Information about the utilization of the funds raised through a new issue of securities during the reporting period

The funds raised through capital increases are invested in real properties in compliance with the investment policy of the Company, and namely:

- Lands in urbanized territories /settlements and villages/ designated for residential, public, production, warehousing, resort, recreational and sports functions;
- Lands in agricultural territories – arable land /fields, orchards, vegetable gardens, vineyards, meadows, etc./ and non-arable land;
- Lands in forest territories – forests and forest land.

11. Analysis of the ratio between the achieved financial results reported in the financial statements for the financial year and projected results published earlier

The Company has not published any projections for the financial results reported in the financial statements for the financial year.

12. Analysis and evaluation of the policy regarding the management of the financial resources, indicating the means for debt servicing, potential threats and measures undertaken or to be undertaken by the Issuer with a view to their elimination

The Company uses debt financing after investment of the raised share capital. The policy of the Company is to sign short-term bridge credit agreements until the next capital increase.

The gearing ratio /debt to equity/ at the end of the year is as follows:

	Year ended 31 December 2012	Year ended 31 December 2011
Debt	39,489	20,946
Cash in hand and cash equivalents	(76,018)	(47,625)
Net debt	(36,529)	(26,679)
Equity	199,798	190,376
Net debt/Equity ratio	n/a	n/a

13. Evaluation of the potential for investment intentions realization, indicating available funds and possible changes in the funding structure for this activity

The internal sources of liquidity as of the end of 2012 are sufficient to provide for the investment process, therefore the Company does not need any external financing.

The ability of the Company to cover its current expenses and to realize its investment intentions can be expressed through the 2012 liquidity ratios.

ANNUAL MANAGEMENT REPORT OF ADVANCE TERRAFUND REIT FOR 2012

General liquidity ratio

	2012	2011	2010	2009	2008
Current assets	BGN 82,302 thousand	BGN 54,139 thousand	BGN 29,018 thousand	BGN 34,500 thousand	BGN 52,703 thousand
Current liabilities	BGN 39,534 thousand	BGN 20,946 thousand	BGN 5,179 thousand	BGN 3,986 thousand	BGN 4,456 thousand
General liquidity ratio	2.08	2.58	5.60	8.66	11.83

Due to the nature of the capital increases of the Company, upon each future increase of the capital there will be a temporary increase of the liquidity of the Company at the time of utilization of the capital until its full investment or reduction of the liquidity at the time of the increase procedure.

	2012	2011	2010	2009	2009
Total current assets	BGN 82,302 thousand	BGN 54,139 thousand	BGN 29,018 thousand	BGN 34,500 thousand	BGN 52,703 thousand
Total current liabilities	BGN 39,534 thousand	BGN 20,946 thousand	BGN 5,179 thousand	BGN 3,986 thousand	BGN 4,456 thousand
Net working capital	BGN 42,768 thousand	BGN 33,193 thousand	BGN 23,838 thousand	BGN 30,514 thousand	BGN 48,247 thousand

The high liquidity which the Company continues to maintain as of 31 December 2012 is the result of the revenues from rents and sales of agricultural land.

14. Information about changes in the key management principles of the Issuer and its economic group during the reporting period

During the reporting period, the key management principles of the Issuer and its economic group did not undergo any changes.

15. Information about the main characteristics of the internal control system and risk management system applied by the Issuer in the process of preparation of the financial statements

The Company prepares and presents its financial statements in compliance with the International Financial Reporting Standards adopted by the Commission of the European Union.

The internal control and risk management system applied in the process of preparation of the financial statements is related to the providing of reliable and free-of-misstatement information about the results of the Company. For the purpose of this dynamic process, the Management has created a suitable organization and ensured the necessary personnel. The system prevents errors or violations and allows for their identification within reasonable intervals of time.

The internal control ensures the storage and protection of the assets, the proper reporting and accounting of the transactions and the effective and efficient achievement of the

ANNUAL MANAGEMENT REPORT OF ADVANCE TERRAFUND REIT FOR 2012

purposes of the Company, meeting the requirements of the legislation and the management policy.

The internal control system has the following components:

- Control environment;
- Risk assessment;
- Controlling operations;
- Information and communication system;
- Monitoring and corrective measures.

16. Information about changes in the management and supervisory bodies during the reporting financial year

During the reporting period, there were no changes in the management and supervisory bodies.

17. Information about the remunerations, awards and/or benefits of each member of the management and supervisory bodies for the reporting financial year paid by the Issuer and its subsidiaries no matter whether they are included in the expenses of the Issuer or originate from profit distribution, including:

a) Received amounts and non-monetary remunerations;

As per the Statutes of the Company, each of the members of its Board of Directors receives a monthly remuneration determined by the General Meeting of Shareholders. The current total of the annual remunerations of all members of the Board of Directors may not exceed 0.20% of the registered capital of the Company as of 31 December of the year preceding the year of holding the session at which the General Meeting of Shareholders determined the remunerations of the members of the Board of Directors.

Borislav Vitanov Petkov	BGN 19 200
Radoslav Iliev Manolov	BGN 30 000
Nencho Ivanov Penev	BGN 19 200

The Company does not apply any policy for allocation of non-monetary remunerations.

b) Conditional or deferred remunerations arising during the year, even if they are due later;

The Company has not allocated any conditional or deferred remuneration.

c) Amounts payable by the Issuer or its subsidiaries for pensions, retirement benefits or other similar compensations;

The Company does not owe any amounts for pensions, retirement benefits or other similar compensations.

18. Information about shares of the Issuer held by members of the management and supervisory bodies, procurators and chief executives, including the shares held by each of them separately and as percentage of the shares of each class and options on the securities of the Issuer provided by the latter – type and amount of the securities on which options have been set up, price of options exercising, purchase price, if any, and option terms

Person	Radoslav Iliev Manolov	
Position	Executive Director	
Number of voting shares in the capital as of 31 December 2012		91,001
Percentage of the capital as of 31 December 2012		0.11%

Person	Borislav Vitanov Petkov	
Position	Chairman of the Board of Directors	
Number of voting shares in the capital as of 31 December 2012		15,001
Percentage of the capital as of 31 December 2012		0.02%

The Company has not provided any options on its securities.

18.1. Information about participation of the members of the Board of Directors in management and supervisory bodies of other companies

Name	Position	Company
Radoslav Iliev Manolov	Manager	Nettelcom EOOD

Name	Position	Company
Borislav Vitanov Petkov	Chairman of the Board of Directors	Advance Equity Holding AD
	Member of the Board of Directors	SEP Bulgaria AD
	Member of the Board of Directors	Euro-Finance Consult AD
	Member of the Board of Directors	Lazurit 94 AD
	Partner	DB Proekt OOD

19. Information about arrangements (including after the closure of the financial year) that may result in future changes in the relative share of shares or bonds owned by present shareholders or bondholders, of which the Company is aware

The Company is not aware of any arrangements as of 31 December 2012 or the date of this Annual Management Report that may result in future changes in the relative share of shares or bonds owned by present shareholders or bondholders.

20. Information about pending lawsuits, administrative or arbitration procedures concerning liabilities or receivables of the Issuer totalling at least 10% of its equity, including individual information about each procedure if the total liabilities or receivables of the Issuer related to all procedures exceed 10% of its equity

The Company is not involved in any pending lawsuits, administrative or arbitration procedures concerning liabilities or receivables totalling at least 10% of its equity.

21. Data about the Investor Relations Director, including telephone number and correspondence address

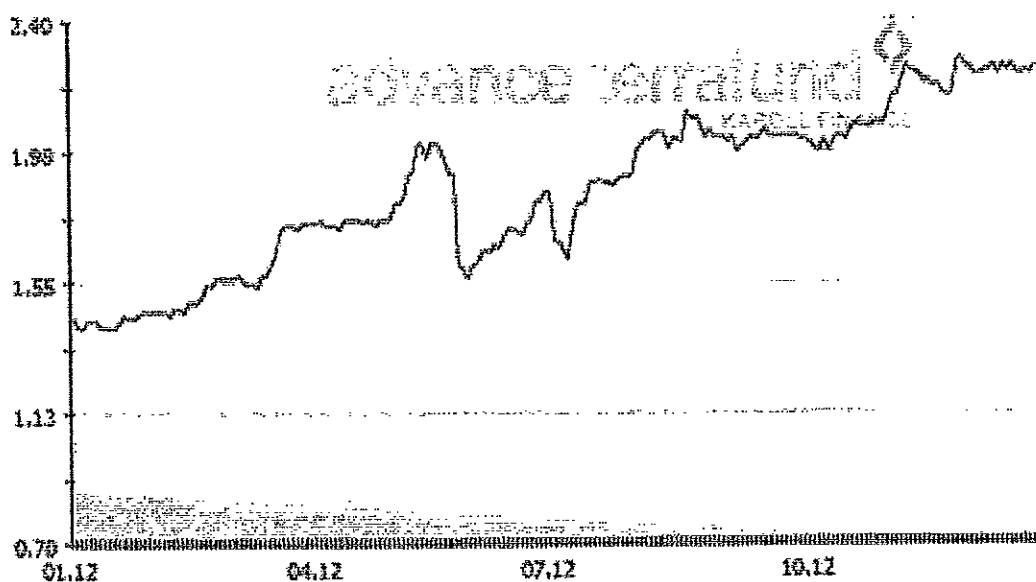
Pursuant to the provisions of Article 116 of the Law on Public Offering of Securities and the Statutes of the Company, the Investor Relations Director employed under a labour agreement is Atanas Todorov Dimitrov.

Correspondence address and telephone:

1 Zlatovrah Street, 1164 Sofia

Telephone: +359 2 4008332, e-mail: adimitrov@karoll.bg

22. Changes in the prices of the Company's shares during the period 1 January 2012 – 31 December 2012



23. Analysis and explanation of the information in Appendix No 11

23.1. Structure of the capital of the Company, including securities not admitted to trading in a regulated market in the Republic of Bulgaria or another member state, indicating the

ANNUAL MANAGEMENT REPORT OF ADVANCE TERRAFUND REIT FOR 2012

different classes of shares, the rights and obligations for each class of shares and the share of each separate class of the total capital.

The structure of the capital of Advance TerraFund REIT as of 31 December 2012 is as follows:

- Capital of Advance TerraFund REIT: BGN 85,110,091 divided into 85,110,091 ordinary registered dematerialized shares, each having nominal value of BGN 1;
- Shares acquired by legal entities – 138 legal entities holding a total of 74,206,453 shares of the capital of Advance TerraFund REIT;
- Shares acquired by individuals – 976 individuals holding a total of 10,903,638 shares of the capital of Advance TerraFund REIT.

23.2. Restrictions applicable to securities transfer – restrictions on securities holding or a requirement for approval by the Company or another shareholder

The Statutes of Advance TerraFund REIT do not provide for any restrictions as to the transfer of shares of the Company or a requirement for approval of Company's shares transfer by the Company or another shareholder.

23.3. Information about direct or indirect ownership of 5% or more of the voting rights in the General Meeting of the Company, including data about the shareholders, the amounts of their participating interests and the manners of shares holding

The shareholders of Advance TerraFund REIT – individuals holding directly or indirectly 5% or more of the voting shares of the Company as of 31 December 2012 are:

Name	Stanimir Marinov Karolev
Manner of shares holding	Indirectly
Number of voting shares in the capital as of 31 December 2012	18 525 225
Percentage of the capital and the votes in the General Meeting	21.77 %

The shareholders of Advance TerraFund REIT – legal entities holding directly or indirectly 5% or more of the voting shares of the Company as of 31 December 2012 are:

Name	KAROLL FINANCE EOOD
Seat and address:	1 Zlatovruh Str., Sofia
BULSTAT	131421411
Number of voting shares in the capital as of 31 December 2011	16 286 032
Percentage of the capital and the votes in the General Meeting	19.14%

Name	INTERNATIONAL FINANCE CORPORATION
Seat and address:	2121 PENNSYLVANIA AVE, NW STREET, WASHINGTON DC, USA 20433
BULSTAT	0019930728
Number of voting shares in the capital as of 31 December 2011	15,068,523
Percentage of the capital and the votes in the General Meeting	17.70%

23.4. Data about shareholders with special control rights and description of such rights

Advance TerraFund REIT does not have any shareholders with special control rights.

23.5. System for control in exercising voting rights when employees of the Company are also its shareholders and when control is not exercised directly by them

Pursuant to the provision of Article 21, Paragraph 1 of the Statutes of Advance TerraFund REIT: *"Each share shall give its holder the right to one vote, the right to dividend and the right to liquidation quota unless otherwise provided for in the decision of the Company's body on a the particular issue of shares. A Company's body shall not have any right to provide more than 1 /one/ vote per share."*

Pursuant to Article 22 of the Statutes of Advance TerraFund REIT: *"Each share shall give its holder the right to one vote in the General Meeting of Shareholders unless issued as a non-voting share. Voting rights shall be exercised by the persons entered in the registers of the Central Depository as shareholders 14 days prior to the date of the particular session of the General Meeting."*

23.6. Restrictions on the voting rights such as restrictions on the voting rights of shareholders holding a certain percentage or number of votes, deadline for voting rights exercising or systems where the financial rights related to the shares are independent from the shares holding with the cooperation of the Company.

The Statutes of Advance TerraFund REIT do not provide for any restrictions on the voting rights.

23.7. Agreements between shareholders that may result in restrictions on transfer of shares or voting rights, of which the Company is aware.

Advance TerraFund REIT is not aware of any agreements between shareholders that may result in restrictions on transfer of shares or voting rights.

23.8. Provisions regarding the election and discharge of the members of the management bodies of the Company and amendments and supplements to the Statutes.

The Company is managed and represented by Board of Directors consisting of 3 active individuals and/or legal entities elected by the General Meeting of Shareholders.

The Board of Directors is elected for a mandate of 5 /five/ years and the members of the first Board of Directors are elected for a mandate of 3 /three/ years. The members of the Board of Directors can be re-elected without restriction. After the expiry of the mandate of the members of the Board of Directors, they continue to exercise their duties until the election of new Board of Directors by the General Meeting of Shareholders.

The Company's operations are managed by an Executive Director elected by the Board of Directors with a majority of 2/3 of the votes. The mandate of the Executive Director is the same as the mandate of the Board of Directors but the same continues to perform its duties

ANNUAL MANAGEMENT REPORT OF ADVANCE TERRAFUND REIT FOR 2012

until the election of new Executive Director. The management powers of the Executive Director are determined with the decision of the Board of Directors on its election and the management agreement. The powers assigned to the Executive Director may be withdrawn at any time with a decision of the Board of Directors made with the majority necessary for its election. For its overall activity, the Executive Director is accountable to the Board of Directors. At each regular meeting of the Board of Directors, the Executive Director reports on its current activities. In the absence of the Executive Director, its functions related to the management of the Company are exercised temporarily by the Chairman of the Board of Directors.

The Statutes of Advance TerraFund REIT may be amended and supplemented by the General Meeting of Shareholders only.

23.9. Powers of the management bodies of the Company, including the right to make decisions on issue and redemption of shares of the Company.

The members of the Board of Directors have equal rights and obligations regardless of the internal allocation of their functions and the granting of management and representation rights to some of them. The Board of Directors makes decisions on the activity of the Company insofar as such decisions are not within the exclusive competence of the General Meeting pursuant to the effective legislation and the Statutes.

The Board of Directors does not have the right to make decisions on redemption of shares of the Company.

23.10. Major agreements of the Company, which require actions or undergo amendment or termination due to changes in the control of the Company in case of mandatory tender offering and related consequences unless the disclosure of such information may result in material damage to the Company, such exception being inapplicable if the Company is obliged to disclose the information by law.

Advance TerraFund REIT is not a party to any agreements, which require actions or undergo amendment or termination due to changes in the control of the Company in case of mandatory tender offering.

23.11. Agreements between the Company and its management bodies or employees for payment of compensation upon leaving or dismissal without legal grounds or upon termination of the labour relations for reasons related to tender offering.

There are no agreements between Advance TerraFund REIT and its management bodies or employees for payment of compensation upon leaving or dismissal without legal grounds or upon termination of the labour relations for reasons related to tender offering.

24. Other information disclosed at the discretion of the Company

The Company continues the implementation of its investment strategy through investing in agricultural land. The trend for 2013 is dynamics of the prices and marked interest by farmers in purchasing agricultural land, which affords opportunities for the Company to realise sales revenues. The Management expects renting out of agricultural land of over

ANNUAL MANAGEMENT REPORT OF ADVANCE TERRAFUND REIT FOR 2012

200,000 decares in 2013, 191,000 decares rented out as of the date of this report, i. e. 78 % of the land owned as of the end of the reporting period. The Management has undertaken effective measures in order to mitigate the risk of bad receivables for the Company for 2012-2013.



Radoslav Manolov
Executive Director

21 March 2013

**INDEPENDENT AUDITOR'S REPORT AND
ANNUAL FINANCIAL STATEMENTS
DECEMBER 31, 2012**



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*This document is a translation of the original text in Bulgarian,
in case of divergence the Bulgarian text is prevailing*

INDEPENDENT AUDITOR'S REPORT

**To the shareholders of
Advance Terrafund REIT**

Report on the financial statements

We have audited the accompanying financial statements of Advance Terrafund REIT (the "Company"), which comprise the statement of financial position as of December 31, 2012 and the 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 fair presentation of these financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted by 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.

Auditor's 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 and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entities' 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.

Делоит се отнася към едно или повече дружества - членове на Делоит Туш Томатсу Лимитид, частно дружество с ограничена отговорност (private company limited by guarantee), регистрирано в Обединеното кралство, както и към мрежата от дружества - членове, всяко от които е юридически самостоятелно и независимо лице. За допълнителна информация относно правната структура на Делоит Туш Томатсу Лимитид и дружествата - членове, моля посетете www.deloitte.com/bg/za_nas.

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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 present fairly, in all material respects, the financial position of the Company as of December 31, 2012, of its financial performance and its cash flows for the year then ended, in accordance with the IFRS, as adopted by the European Union.

Emphasis of matter

We draw attention to notes 3 и 4 to the accompanying financial statements, where it is disclosed that the investment properties of the Company are measured at fair value based on the annual valuation required. As disclosed in note 2 'Accounting assumptions and accounting estimates' the Company's major source of uncertainty regarding accounting assumptions and accounting estimates relates to the measurement of the fair value of investment properties. The valuation was performed in the absence of representative and official agro-market information for 2012, such as agricultural land prices, rents, yields by regions, etc. In addition, one of the valuation methods applied having 20% weight, is the current market prices method according to the Regulation for the conditions and order for establishing current market prices for agricultural land whereas the market value of land is determined by applying differentiated administrative coefficients, based on the characteristics of the agricultural land. Due to the inherent uncertainty of the valuation especially in the current market conditions, the fair value may differ significantly from the values that would have been used had representative and official agro-market information for 2012 been available, and these differences could be material. Our opinion is not modified in respect to this matter.

Other Reports on regulatory requirements - Annual report on the activities of the Company, prepared by management, according to article 33 of the Accountancy Act

Pursuant to the requirements of the Bulgarian Accountancy Act, article 38, paragraph 4 we have read the accompanying Annual report on the activities. The Annual report on the activities, prepared by management, is not a part of the financial statements. The historical financial information presented in the Annual report on the activities of the Company, prepared by management, is consistent, in all material respects, with the annual financial information disclosed in the financial statements of the Company as of December 31, 2012, prepared in accordance with the IFRS, as adopted by the European Union. Management is responsible for the preparation of the Annual report on the activities of the Company, dated March 21, 2013.

Deloitte Audit OOD
Deloitte Audit OOD

Asen Dimov
Asen Dimov
Managing Director
Registered Auditor



March 21, 2013
Sofia

ADVANCE TERRAFUND REIT

STATEMENT OF FINANCIAL POSITION

AS OF DECEMBER 31, 2012

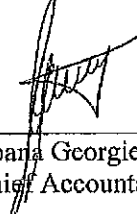
All amounts are in thousand Bulgarian Levs, except otherwise stated

	Notes	As of 31.12.2012	As of 31.12.2011
ASSETS			
Investment properties	4	155,866	156,087
Non-current assets held for sale	5	1,164	1,096
Rent and other receivables	6	4,968	4,608
Advances to suppliers	7	1,316	1,906
Cash and cash equivalents	8	76,018	47,625
TOTAL ASSETS		239,332	211,322
LIABILITIES			
Current liabilities	9	39,489	20,946
Provisions		45	-
TOTAL LIABILITIES		39,534	20,946
TOTAL NET ASSETS		199,798	190,376
EQUITY			
Share capital	10	85,110	85,110
Share premium		43,411	43,411
Retained earnings		71,277	61,855
TOTAL EQUITY		199,798	190,376

These financial statements were approved by the Board of and signed on behalf of Advance TerraFund REIT on March 21, 2013 by


Radoslav Manolov
Executive Director




Yoana Georgieva
Chief Accountant

The accompanying notes form an integral part of these financial statements.

ADVANCE TERRAFUND REIT

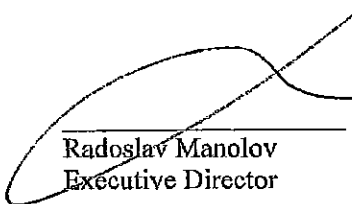
STATEMENT OF COMPREHENSIVE INCOME

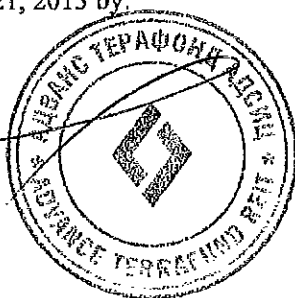
FOR THE YEAR ENDED DECEMBER 31, 2012

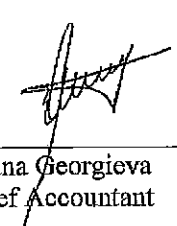
All amounts are in thousand Bulgarian Levs, except otherwise stated

	Note	Year ended 31.12.2012	Year ended 31.12.2011
Interest income		2,652	2,018
Income from sale and exchange of investment properties		69,239	37,583
Carrying amount of properties sold		(40,205)	(21,096)
		29,034	16,487
Income from rent of investment properties	4	5,886	6,106
Income from revaluation of investment properties, net		22,626	39,781
Other income		62	77
OPERATING INCOME		60,260	64,469
Hired services	11	(10,230)	(6,675)
Employee benefits		(112)	(112)
Finance costs		(3)	(1)
Impairment losses on receivables		(629)	(430)
Other expenses		(87)	(19)
OPERATING EXPENSES		(11,061)	(7,237)
NET PROFIT FOR THE YEAR		49,199	57,232
Other comprehensive income		-	-
TOTAL COMPREHENSIVE INCOME		49,199	57,232
Earnings per share (BGN)	15	0.58	0.67

These financial statements were approved by the Board of and signed on behalf of Advance TerraFund REIT on March 21, 2013 by:


Radoslav Manolov
Executive Director




Yoana Georgieva
Chief Accountant

The accompanying notes form an integral part of these financial statements.

ADVANCE TERRAFUND REIT

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31, 2012

All amounts are in thousand Bulgarian Levs, except otherwise stated

Note	Year ended 31.12.2012	Year ended 31.12.2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Purchase of investment properties	(17,135)	(10,344)
Payments to suppliers and contractors	(2,737)	(1,911)
Proceeds from rentals and sales	74,976	43,803
Payments to employees	(120)	(110)
Interest received	2,522	1,383
Other cash flows used in operating activities	(8,194)	(4,430)
NET CASH FLOW USED IN OPERATING ACTIVITIES	49,312	28,391
CASH FLOWS FROM FINANCING ACTIVITIES		
Dividends paid	(20,917)	(4,082)
Other cash flows from financing activities	(2)	(1)
NET CASH FLOW USED IN FINANCING ACTIVITIES	(20,919)	(4,083)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	28,393	24,308
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD	47,625	23,317
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	76,018	47,625

These financial statements were approved by the Board of and signed on behalf of Advance TerraFund REIT on March 21, 2013 by:

Radoslav Manolov
Executive Director



Yoana Georgieva
Chief Accountant

The accompanying notes form an integral part of these financial statements.


ADVANCE TERRAFUND REIT

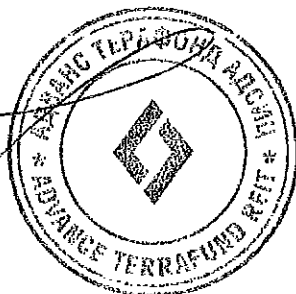
STATEMENT OF SHAREHOLDERS' EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2012

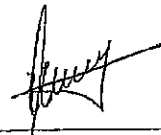
All amounts are in thousand Bulgarian Levs, except otherwise stated

	Share capital	Share premium	Accumulated profit/(loss)	Total
BALANCE AS OF JANUARY 1, 2011	85,110	43,411	23,997	152,518
Total comprehensive income for 2011	-	-	57,232	57,232
Dividend (note 16)	-	-	(19,374)	(19,374)
Other comprehensive income	-	-	-	-
BALANCE AS OF DECEMBER 31, 2011	85,110	43,411	61,855	190,376
Total comprehensive income for 2012	-	-	49,199	49,199
Dividend (note 16)	-	-	(39,754)	(39,754)
Other comprehensive income	-	-	-	-
Other changes	-	-	(23)	(23)
BALANCE AS OF DECEMBER 31, 2012	85,110	43,411	71,277	199,798

These financial statements were approved by the Board of and signed on behalf of Advance TerraFund REIT on March 21, 2013 by:


Radoslav Manolov
Executive Director




Yoana Georgieva
Chief Accountant

The accompanying notes form an integral part of these financial statements.

ADVANCE TERRAFUND REIT

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2012

All amounts are in thousand Bulgarian Levs, except otherwise stated

1. GENERAL INFORMATION

Advance TerraFund REIT

Advance TerraFund REIT ("the Company") is a public joint stock company set up at a Constituent meeting on April 12, 2005. Its initial registered capital amounts to BGN 500,000, divided into 500,000 shares with par value of BGN 1 per share. The Company is registered again in the Trade Register at the Registry Agency under UIC 131418187. Its registered seat and address of operation is 1, Zlatovruh street, Sofia.

The Company's scope of activity is investment of funds raised through public offering of the company's equity securities; investment in real estate (securitization of real estate) through purchase of ownership and other property right on real estate; development and improvement of real estate for the purpose of the real estate being used, rented, leased, and/or sold.

The Company's activity is regulated by specific legislation, mainly consisting of the Special Investment Purpose Companies Act (SIPCA) and the Public Offering of Securities Act (POSA). According to these laws, the Company is subject to supervision by the Financial Supervision Commission (FSC). The Company obtained license № 10, dated December 8, 2005 for its activities, under Decision № 452 issued by the FSC on 14 July 1, 2005.

The Company is incorporated for an indefinite period.

The Company has one-tier management structure. The members of the Company's Board of Directors (BoD) are as follows: Radoslav Iliev Manolov –Executive Director, Borislav Vitanov Petkov – Chairman of the BoD and Nencho Ivanov Penev – Member of the BoD.

Karoll Finance EOOD is a service company of Advance TerraFund REIT, which owns 19.14% of the share capital of the Company as of December 31, 2012 and provides consulting and other services such as administrative, accounting and recruitment services to the Company.

Since the Company's incorporation in 2005, there have been five successive capital increases and the Company's share capital as of December 31, 2012 amounts to BGN 85,110,091.

Investment strategy, objectives and restrictions of the Company

Advance TerraFund REIT is an investment company with special investment purpose: securitization of real estate. The Company can acquire property rights on agricultural, urban, suburban and forest land, located on the territory of the Republic of Bulgaria. Pursuant to the Company's Articles of Association, approved at the Constituent meeting on April 12, 2005, the Company's investment objectives are as follows:

- to provide its shareholders with the opportunity to invest in a diversified real estate portfolio, based on the risk sharing principle;
- to ensure the preservation and the increase in value of shareholders' investments by means of generation of stable income at a balanced risk sharing.

ADVANCE TERRAFUND REIT

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2012

All amounts are in thousand Bulgarian Levs, except otherwise stated

1. GENERAL INFORMATION (CONTINUED)

The Company's strategy prescribes investments in real estate pursuant to Article 9 of the Articles of Association of Advance TerraFund REIT with the purpose of generating current income from rent, lease, ceded right of use, as well as by means of sale of real estate in order to generate stable income. In order to achieve its main goal the Company shall apply proper strategies for market and currency risk management.

The Company's financial goals are:

- To ensure steadily growing income for the shareholders in the form of cash dividend by renting out the owned real estate property;
- To maximize the value of the shareholders' investments, through continuous active management of the Company's assets and acquisition/sale of agricultural land;
- Diversification of the agricultural land portfolio through investing in various types of agricultural land (arable land, perennial plant land, vineyards, etc.), situated in different regions of Bulgaria, with the purpose of minimizing the non-systematic risk of the whole investment portfolio;
- To ensure liquidity for the shareholders by registering the shares of Advance TerraFund REIT for trading at the Bulgarian Stock Exchange – Sofia;
- To conduct the necessary increase in share capital in order to create a structured balanced portfolio of investment property.

According to its investment policy, the Company should invest the accumulated capital in real estate with clear main and specific purposes, according to the organizational schemes and plans and the detailed organizational plan. The real estate investment portfolio includes the following:

- Land in urbanized territories /urbanized areas and towns and villages/ – fit for residential, public, industrial, storage, resort, sports and entertainment functions;
- Land in agricultural territories – arable land /fields, fruit and vegetable gardens, vineyards, meadows and others/ and uncultivated land;
- Land in forest territories – forests and forest land;

It is the Company's investment policy to maintain its real estate investment portfolio equivalent to 90% of the net book value of the Company's total assets as reported in its annual financial statements.

The Company may also invest the available financial resources of the Company in the following:

- Securities, issued and guaranteed by the Bulgarian State and bank deposits – without limits;
- Mortgage obligations, issued in accordance with the Mortgage Obligations Act – up to 10% of Company's assets.

The Special Investment Purpose Companies Act permits investment up to 10% of Company's capital in one or more servicing companies.

2. BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS

The Company prepares and presents its financial statements in accordance with International Financial Reporting Standards (IFRS), issued by the International Accounting Standards Board (IASB) and the interpretations, issued by the International Financial Reporting Interpretations Committee (IFRIC), as approved by the European Union (the EU) and applicable in the Republic of Bulgaria.

SIPCA requires the investment property to be valued at the end of each financial year. At the end of each financial year, the investment property is valued by a licensed independent appraiser accredited by the Ministry of Agriculture in compliance with Article 20, para 1 and 2 of SIPCA. In evaluating the Company's investment property as of December 31, 2012 and December 31, 2011 the independent appraiser used the model "fair market value" (see note 3).

Changes in IFRS

Standards and Interpretations effective in the current period

The following amendments to the existing standards issued by the International Accounting Standards Board and adopted by the EU are effective for the current period:

- Amendments to IFRS 7 "Financial Instruments: Disclosures" - Transfers of Financial Assets, adopted by the EU on November 22, 2011 (effective for annual periods beginning on or after July 1, 2011).

The adoption of these amendments to the existing standards has not led to any changes in the Company's accounting policies.

Standards and Interpretations issued by IASB and adopted by the EU but not yet effective

At the date of authorisation of these financial statements the following standards, revisions and interpretations adopted by the EU were in issue but not yet effective:

- IFRS 10 "Consolidated Financial Statements", adopted by the EU on December 11, 2012 (effective for annual periods beginning on or after January 1, 2014);
- IFRS 11 "Joint Arrangements", adopted by the EU on December 11, 2012 (effective for annual periods beginning on or after January 1, 2014);
- IFRS 12 "Disclosures of Interests in Other Entities", adopted by the EU on December 11, 2012 (effective for annual periods beginning on or after January 1, 2014);
- IFRS 13 "Fair Value Measurement", adopted by the EU on December 11, 2012 (effective for annual periods beginning on or after January 1, 2013);
- IAS 27 (revised in 2011) "Separate Financial Statements", adopted by the EU on December 11, 2012 (effective for annual periods beginning on or after January 1, 2014);
- IAS 28 (revised in 2011) "Investments in Associates and Joint Ventures", adopted by the EU on December 11, 2012 (effective for annual periods beginning on or after January 1, 2014);
- Amendments to IFRS 1 "First-time Adoption of IFRS" - Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters, adopted by the EU on December 11, 2012 (effective for annual periods beginning on or after January 1, 2013);

2. BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS (CONTINUED)

Changes in IFRS (continued)

Standards and Interpretations issued by IASB and adopted by the EU but not yet effective (continued)

- Amendments to IFRS 7 “Financial Instruments: Disclosures” - Offsetting Financial Assets and Financial Liabilities, adopted by the EU on December 13, 2012 (effective for annual periods beginning on or after January 1, 2013);
- Amendments to IAS 1 “Presentation of financial statements” - Presentation of Items of Other Comprehensive Income, adopted by the EU on June 5, 2012 (effective for annual periods beginning on or after July 1, 2012);
- Amendments to IAS 12 “Income Taxes” - Deferred Tax: Recovery of Underlying Assets, adopted by the EU on December 11, 2012 (effective for annual periods beginning on or after January 1, 2013);
- Amendments to IAS 19 “Employee Benefits” - Improvements to the Accounting for Post-employment Benefits, adopted by the EU on June 5, 2012 (effective for annual periods beginning on or after January 1, 2013);
- Amendments to IAS 32 “Financial instruments: presentation” - Offsetting Financial Assets and Financial Liabilities, adopted by the EU on December 13, 2012 (effective for annual periods beginning on or after January 1, 2014);
- IFRIC 20 “Stripping Costs in the Production Phase of a Surface Mine”, adopted by the EU on December 11, 2012 (effective for annual periods beginning on or after January 1, 2013).

The Company has elected not to adopt these standards, revisions and interpretations in advance of their effective dates.

Company anticipates that the adoption of these standards, revisions and interpretations will have no material impact on the financial statements of the Company in the period of initial application.

Standards and Interpretations issued by IASB but not yet adopted by the EU

At present, IFRS as adopted by the EU do not significantly differ from regulations adopted by the IASB, except for the following standards, amendments to the existing standards and interpretations, which were not endorsed for use as at the date of publication of financial statements:

- IFRS 9 “Financial Instruments” (effective for annual periods beginning on or after January 1, 2015);
- Amendments to IFRS 1 “First-time Adoption of IFRS” - Government Loans (effective for annual periods beginning on or after January 1, 2013);
- Amendments to IFRS 9 “Financial Instruments” and IFRS 7 “Financial Instruments: Disclosures” - Mandatory Effective Date and Transition Disclosures;
- Amendments to IFRS 10 “Consolidated Financial Statements”, IFRS 11 “Joint Arrangements” and IFRS 12 “Disclosures of Interests in Other Entities” - Transition Guidance (effective for annual periods beginning on or after January 1, 2013);
- Amendments to IFRS 10 “Consolidated Financial Statements”, IFRS 12 “Disclosures of Interests in Other Entities” and IAS 27 “Separate Financial Statements” - Investment Entities (effective for annual periods beginning on or after January 1, 2014);

2. BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS (CONTINUED)

Changes in IFRS (continued)

Standards and Interpretations issued by IASB but not yet adopted by the EU (continued)

- Amendments to various standards "Improvements to IFRSs (2012)" resulting from the annual improvement project of IFRS published on May 17, 2012 (IFRS 1, IAS 1, IAS 16, IAS 32, IAS 34) primarily with a view to removing inconsistencies and clarifying wording (amendments are to be applied for annual periods beginning on or after January 1, 2013).

The Company anticipates that the adoption of these standards, amendments to the existing standards and interpretations will have no material impact on the financial statements of the Company in the period of initial application.

At the same time, hedge accounting regarding the portfolio of financial assets and liabilities, whose principles have not been adopted by the EU, is still unregulated.

According to the Company's estimates, application of hedge accounting for the portfolio of financial assets or liabilities pursuant to IAS 39: Financial Instruments: Recognition and Measurement, would not significantly impact the financial statements, if applied as at the reporting date.

These financial statements are prepared under the historical cost convention except for investment properties, which are measured at fair value. The other financial assets and liabilities and non-financial assets and liabilities are carried at amortized or historical cost.

Accounting assumptions and accounting estimates

The preparation and presentation of the financial statements requires management to apply some accounting assumptions and estimates which affect the carrying amount of assets and liabilities as of the date of the statement of financial position and the amount of income and expenses in the reporting period, as well as the disclosure of contingent assets and liabilities. Although these assumptions and estimates are based on the best management's expectations and the available information as of the date of the financial statements, the actual results may differ from expected ones.

The Company's major uncertainty regarding accounting assumptions and accounting estimates relates to the measurement of the fair value of investment properties (see note 3). The valuation was performed in the absence of representative and official agro-market information for 2012 such as agricultural land prices, rents, yields, etc. by regions.

Functional and presentation currency

The Company keeps its records and prepares its financial statements in the national currency of the Republic of Bulgaria – the Bulgarian Lev, which is the official currency of the primary economic environment in which the Company operates. Effective January 1, 1999 the Bulgarian Lev is fixed to the EUR at the rate of BGN 1.95583 = EUR 1.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2012

All amounts are in thousand Bulgarian Levs, except otherwise stated

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Investment property

The investment properties in which the Company is interested to invest are land held for generating of rental income or with the purpose for capital appreciation.

Investment properties are initially valued at cost, including the acquisition price, as well as all expenses attributable to or related to the acquisition of the investment property.

Subsequent expenses, related to the investment property, that has already been recognized, are added to the carrying amount of the investment property, when a probability exists that there would be future economic benefits, exceeding the initial expectations for the performance of the investment property

Subsequent valuation of the investment property is carried out by applying the fair value model, which is used for valuation of investment property after its initial recognition at acquisition cost. By applying the fair value model, changes in fair values are recognized in the statement of comprehensive income as profit or loss for the year.

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

Increases in subsequent valuations in 2012 and 2011 are based on reports prepared by the independent appraisers, accredited by the Ministry of Agriculture in compliance with Article 20, items 1 and 2 of SIPCA. As a result of these reports dated February 15, 2013 and February 10, 2012, there was increase in subsequent valuations in 2012 and 2011, respectively.

In valuation of the Company's investment property as of December 31, 2012 and December 31, 2011, the independent appraiser used the "fair market value" model. The fair market value (FMV) means the most probable value, at which a specific asset could be traded on a competitive market, keeping all conditions for a fair sale, namely: the buyer and the seller are aware of their actions, well informed about the respective asset and are guided by their own interests, both are acting of their own free will, taking into consideration the fact that the term of execution of the comparable transactions should not be reasonably long.

The following methods for valuation of agricultural land are applied:

- current market prices method;
- comparative method (market analogues);
- liquidation value method;
- method of determining the price of compensation.

Current market prices method, according to Regulation for the conditions and the order for establishing current market prices for agricultural land, takes into consideration the particular characteristics of the property (qualitative, quantitative, location, condition, etc.). Market value of land is determined by applying differentiated administrative coefficients, based on the characteristics of the agricultural land to be valued. This market value could be used in various transactions between the State and individuals and/or corporate bodies such as purchase, substitution, etc. By using this valuation method the value of the property is the multiple of three quantities: the initial price of the land, the sum of the correctional coefficients plus 1 and the respective area of the property.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investment property (continued)

Comparative method (market analogues) – by applying this method the value of the land is determined by comparison with sales of land with the same or similar characteristics, and where information about the sale (including prices) is available and reliable. The closer the valuation date is to the time of transactions, the more reliable is the resulting market price of the land subject to revaluation.

Liquidation value method – this method uses for assessment a hypothetical selling of the assets instead of their ability to generate income. The liquidation value method is also used because of its ability to measure specific assets apart from the other assets.

Method of determining the price of compensation – this method is used to determine the price of compensation when expropriating property for government needs. It is justified to use this method when there is limited market evidence, and when it is more difficult to determine the liquidation value due to particularities in the economic environment.

When determining the price by using this method, the appraiser estimates the value of the property in accordance with the Local Taxes and Charges Act and takes into consideration all comparable coefficients, the value of which is doubled.

The Company has entered into leasehold agreements on its investment properties and retains all significant risks and rewards of ownership on these properties.

Non-current assets held for sale

The Company classifies non-current asset as held for sale when their carrying amount will be recovered sooner through sale than through continuing use. The asset has to be available for immediate sale in its current condition and the sale has to be likely performed in 12-month period. These assets are separately presented in the statement of financial position.

The Company measures assets classified as held for sale at the lower from their carrying amount immediately after they have been classified as held for sale and their fair value less cost of sales.

Cash and cash equivalents

Cash and cash equivalents comprise cash at hand, current accounts and short-term deposits at banks with maturity up to twelve months. The Company's management believes that the deposits with maturity up to 12 months meet the criteria for cash equivalents because they are easily converted into cash with no loss of value. These deposits are convertible into cash without written notice and without any penalties to the Company for early withdrawal.

Financial instruments

All financial assets and liabilities are initially measured at fair value, which is usually the value of the consideration paid (in respect of a financial asset) or received (in respect of a financial liability). Financial assets include financial assets at fair value through profit or loss, loans and receivables, financial assets held to maturity and financial assets available for sale.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (continued)

Financial assets at fair value through profit or loss are subsequently measured at fair value, where the changes in the fair value are reported as profit or loss in the statement of comprehensive income. Financial assets available for sale are measured at fair value, where the changes in the fair value are reported in the statement of comprehensive income and are presented as revaluation reserves in equity. Loans and receivables and held to maturity financial assets, are subsequently measured at amortized cost using the effective interest method.

Debt and equity instruments are classified in accordance with the contract as financial liabilities or equity, respectively. An equity instrument is any contract that provides residual value in the assets of the entity after deducting all liabilities. Equity instruments are recorded at the proceeds received, net of any issue costs. Financial liabilities are classified as either financial liabilities at fair value through profit and loss (FVTPL) or other financial liabilities. Financial liabilities at FVTPL are stated at fair value, with any resulting gain or loss recognized in profit and loss. Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs. These are subsequently measured at amortized cost using the effective interest method, with interest expense recognized on an effective yield basis.

A review of the financial assets as of the date of the statement of financial position is performed to determine if there are indications of impairment or revaluation. If such indications exist, the asset's recoverable value is determined and impairment losses are recognized.

Transactions in foreign currency

Transactions, denominated in foreign currency, are reported in BGN, at the exchange rate of the Bulgarian National Bank (BNB) as of the date of the respective transaction. Assets and liabilities, denominated in foreign currency, are reported as of the date of the preparation of the statement of financial position at the closing exchange rate of BNB.

Foreign exchange rate gains and losses are reported in the statement of comprehensive income as profit or loss in the period in which they arise.

Since January 1, 1999 the Bulgarian Lev is fixed to the currency of the European Union at a rate of EUR 1 = BGN 1.95583. The fluctuations of all other foreign currencies against the BGN reflect their exchange rate movements against the Euro on the foreign markets.

The Company does not perform significant transactions denominated in currencies other than BGN and EUR, and accordingly, is not exposed to currency risk.

Rental income

Rental income from investment properties is recognized in the statement of comprehensive income on an accrual basis over the lease term.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2012

All amounts are in thousand Bulgarian Levs, except otherwise stated

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**Interest income**

Interest income on deposits is recognized in the statement of comprehensive income on an ongoing basis, according the deposit agreement. Interest earned whilst holding trading securities is reported as interest income.

Income tax and requirements for dividend

In accordance with the Corporate Income Tax Act, the special investment purpose companies, licensed under SIPCA, are not subject to corporate income taxation, providing that the Company distributes in favor of its shareholders 90% of the profit for the year and 90 % of its financial result, if it is lower than the profit for the year. In accordance with the requirement of the SIPCA, the Company accrues the required dividend at the end of the reporting period and recognizes this dividend as a liability as of the date of the statement of financial position, thus meeting the requirement for current liability in compliance with IAS 37.

Thus, the Company is not liable and does not recognize current and deferred income taxes in these financial statements.

4. INVESTMENT PROPERTIES

	Agricultura land	Regulated property	Properties for which lawsuits are initiated	Other	Total
Carrying amount					
As of January 1, 2011	109,070	17,661	1,161	35	127,927
Additions	9,817	-	-	4	9,821
Disposals	(20,327)	-	(19)	-	(20,346)
Claims originated	(69)	-	69	-	-
Suspended claims	-	1,142	(1,142)	-	-
Classified as assets held-for - sale	(1,096)	-	-	-	(1,096)
As of December 31, 2011	<u>97,395</u>	<u>18,803</u>	<u>69</u>	<u>39</u>	<u>116,306</u>
Subsequent measurement to fair value	43,243	(3,393)	(69)	-	39,781
As of December 31, 2011	<u>140,638</u>	<u>15,410</u>	<u>-</u>	<u>39</u>	<u>156,087</u>
Carrying amount					
As of January 1, 2012	140,638	15,410	-	39	156,087
Additions	17,395	-	-	26	17,421
Disposals	(39,115)	-	-	-	(39,115)
Claims originated	(366)	-	366	-	-
Suspended claims	19	-	(19)	-	-
Classified as assets held-for - sale	(1,164)	-	-	-	(1,164)
As of December 31, 2012	<u>117,407</u>	<u>15,410</u>	<u>347</u>	<u>65</u>	<u>133,229</u>
Subsequent measurement to fair value	23,591	(768)	(186)	-	22,637
As of December 31, 2012	<u>140,998</u>	<u>14,642</u>	<u>161</u>	<u>65</u>	<u>155,866</u>

ADVANCE TERRAFUND REIT

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
 FOR THE YEAR ENDED DECEMBER 31, 2012
 All amounts are in thousand Bulgarian Levs, except otherwise stated

4. INVESTMENT PROPERTI (CONTINUED)

The fair value of properties for which lawsuits have been initiated is as follows:

	Fair value
As of December 31, 2011	69
Adjustment due to the circumstances related to lawsuits	<u>(69)</u>
Adjusted amount as of December 31, 2011	<u>1,161</u>
As of December 31, 2012	347
Adjustment due to the circumstances related to lawsuits	<u>(186)</u>
Adjusted amount as of December 31, 2012	<u>161</u>

According to the lawyers' team the lawsuits against the Company concerning entirely or partially the right of ownership of 818 decares of agricultural land will be lost and therefore, as of December 31, 2012 the fair value of these properties is adjusted with BGN 230 thousand to zero.

The Company has rental contracts for approximately 191,183 decares and 239,275 decares in 2012 and 2011, respectively. The realized income from rent for 2012 and 2011 amounts to BGN 5,886 thousand and BGN 6,106 thousand, respectively, and is reported in the statement of comprehensive income.

During the past financial year the Company has sold 79,296 decares of of agricultural land at average prices of BGN 873/decare.

In 2011 five of the lawsuits against the Company were concluded, concerning the right of ownership of 200 decares of agricultural land in three properties in the regions of Vratsa, one property in the region of Silistra and one property in the region of Tourgovishte. The purchase of nine properties was declared invalid and thus the notary deeds were revoked. The Company lost entirely the ownership of the properties and therefore, they were written-off at their carrying amount (BGN 79 thousand) from the properties owned at the end of the year.

5. NON-CURRENT ASSETS HELD FOR SALE

As of December 31, 2012 the Company has signed preliminary contracts for sale of 1,330 deca of land fields. In comparison, preliminary contracts signed as of December 31, 2011 comprise land filed of 2,123 deca in total and properties with different permanent use.

The Company has classified these properties as non-current assets held for sale, as follows:

	As of 31.12.2012	As of 31.12.2011
Non-current assets held for sale	<u>1,164</u>	<u>1,096</u>
Total	<u>1,164</u>	<u>1,096</u>

ADVANCE TERRAFUND REIT

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2012

All amounts are in thousand Bulgarian Levs, except otherwise stated

6. RENT AND OTHER RECEIVABLES

	As of 31.12.2012	As of 31.12.2011
Advances to brokers and contractors	863	960
Rents, net of impairment	2,873	2,490
Interest on deposits in BGN and EUR	1,162	1,056
Compensations	2	53
Legal claims and writs	53	35
Other	15	14
Total	4,968	4,608

Advance Terrafund REIT has determined a direct relationship between rent receivables collection from agricultural producers and their subsidizing process.

Overdue receivables from rent as of December 31, 2012 and 2011 is BGN 389 thousand and BGN 334 thousand, respectively.

Movement of provisions for impairment of receivables from rent for 2011 is, as follows:

	2012	2011
Balance as of January 1	332	98
Provision accrued	66	261
Provision reversed	(9)	(27)
Balance as of December 31	389	332

7. ADVANCES TO SUPPLIERS

On September 14, 2009 Advance Terrafund REIT has signed a preliminary contract for purchase of a land of 38 dca in the area of Veliko Turnovo. The Company made an advance payment at the amount of BGN 1,879 thousand under the contract.

Due to the great delay in the execution of some of the underlying compulsory conditions for signing the final contract for purchase of the land, the Company negotiated with the sellers of the land and agreed to its termination. As per the agreement signed on April 25, 2012, the contract is terminated by mutual consent and the seller is obliged to return to Advance Terrafund REIT the paid advance of BGN 1,879 thousand and a compensation of BGN 100 thousand.

As of the end of the reporting period no payments were made yet as per the signed contract and the Company has accrued impairment of the advance, as follows:

	As of 31.12.2012	As of 31.12.2011
Balance as of January 1	1,879	1,879
Impairment accrued	(563)	-
Balance as of December 31	1,316	1,879

As of December 31, 2012 and December 31, 2011 the total amount of advances to suppliers amount to BGN 1,316 thousand and BGN 1,906 thousand, respectively.

ADVANCE TERRAFUND REIT

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2012
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8. CASH AND CASH EQUIVALENTS

	As of 31.12.2012	As of 31.12.2011
Cash on hand	101	179
Cash at current accounts in BGN	2,444	394
Bank deposits in BGN	73,473	42,045
Bank deposits in EUR	-	5,007
Total	<u>76,018</u>	<u>47,625</u>

10. CURRENT LIABILITIES

	As of 31.12.2012	As of 31.12.2011
Payables to suppliers and brokers	143	110
Advances received	477	309
Payables to the service company (note 14)	1,008	1,196
Payables for dividends (note 16)	37,822	19,314
Other	39	17
Total	<u>39,489</u>	<u>20,946</u>

11. SHARE CAPITAL

	Number of shares	Nominal value, in BGN	Share capital
As of January 1, 2011	85,110	1	85,110
Shares issued in 2011	-	-	-
As of December 31, 2011	85,110	1	85,110
Shares issued in 2012	-	-	-
As of December 31, 2012	<u>85,110</u>	<u>1</u>	<u>85,110</u>

10. HIRED SERVICES

	Year ended 31.12.2012	Year ended 31.12.2011
Consulting (see note 11A)	7,750	4,867
Commissions	2,067	1,430
Expenses for insurance of receivables	7	106
Annual fees	19	17
Advertising	40	31
Subsequent expenses for property management	270	174
Other expenses and fees	77	50
Total	<u>10,230</u>	<u>6,675</u>

ADVANCE TERRAFUND REIT

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
 FOR THE YEAR ENDED DECEMBER 31, 2012
 All amounts are in thousand Bulgarian Levs, except otherwise stated

11A. CONSULTING

	Year ended 31.12.2012	Year ended 31.12.2011
Remuneration of servicing company (Notes 12 and 14)	7,649	4,774
Audit services	60	63
Actuary services	17	10
Other consulting services	24	20
Total	<u>7,750</u>	<u>4,867</u>

12. SERVICE AGREEMENT

The Company has signed a service agreement with Karoll Finance EOOD, which owns 19,14% of the share capital of the Company. Under the agreement above, Karoll Finance EOOD provides consulting and administrative services, as well as recruitment services to the Company in return of an annual service fee, which comprises the following:

- 1 0.375% of the value of investment properties of the Company at acquisition cost, payable on a quarterly basis;
- 2 10% of lease and rent income of the Company, calculated at the end of each quarter;
- 3 10% of the difference between the sale price and acquisition cost at sale under the condition that an internal rate of return (IRR) of minimum 15% calculated on an annual basis has been achieved upon sale.

The total fee under the service agreement for 2012 and 2011 is at the amount of BGN 7,649 thousand and BGN 4,774 thousand, respectively (note 14).

13. REMUNERATION OF THE COMPANY'S BOARD OF DIRECTORS AND MANAGEMENT

Remuneration paid in 2012 by the Company to the Board of Directors and the management is at the amount of BGN 68 thousand, which is unchanged in comparison with 2011.

The Company has not adopted a retirement plan and share-based payments to its employees.

14. RELATED PARTY TRANSACTIONS

2012

	Payable at the beginning of the period	Charged during the period	Paid during the period	Payable at the end of the period
Consulting services "Karoll Finance" EOOD (servicing company under SIPCA)	1,196	7,649	7,837	1,008

ADVANCE TERRAFUND REIT

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2012

All amounts are in thousand Bulgarian Levs, except otherwise stated

14. RELATED PARTY TRANSACTIONS (CONTINUED)

2012

	Receivable at the beginning of the period	Charged during the period	Received during the period	Receivable at the end of the period
Leases				
"Agro Terra Sever"AD (a company under common control)	301	310	228	383
"Remuss" OOD (a company under common control)	184	173	142	215

2011

	Payable at the beginning of the period	Charged during the period	Paid during the period	Payable at the end of the period
Consulting services from servicing company under SIPCA				
"Karoll Finance"BOOD (servicing company under SIPCA)	831	4,774	4,409	1,196
	Receivable at the beginning of the period	Charged during the period	Received during the period	Receivable at the end of the period
Leases				
"Agro Terra Sever"AD (a company under common control)	268	243	210	301
"Remuss" OOD (a company under common control)	252	155	223	184

15. EARNINGS PER SHARE

	Year ended 31.12.2012	Year ended 31.12.2011
Net profit (BGN '000)	49,199	57,232
Weighted average number of shares, on a daily basis	85,110,091	85,110,091
Earnings per share (BGN)	0.58	0.67

Weighted average number of ordinary shares represents the total of ordinary shares in circulation at the beginning of the period, and ordinary shares in circulation issued or redeemed in the period, as each number of shares is preliminary multiplied by the time-weighting factor.

16. DIVIDEND PER SHARE

According to SIPCA, article 10, the Company is required to distribute dividends at least 90% of the financial result adjusted in accordance with article 10, paragraph 3 of SIPCA.

As of December 31, 2012 the Company accrued dividend at the amount of BGN 37,787 thousand (BGN 0.444 per share), which is expected to be paid to the shareholders in 2013, after resolution of the General meeting.

ADVANCE TERRAFUND REIT

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16. DIVIDEND PER SHARE (CONTINUED)

The amount of the dividend in 2012 is determined, as follows:

	Year ended 31.12.2012
Accounting profit, according to the statement of comprehensive income	49,199
<i>Adjustment for:</i>	
Expenses from subsequent valuation of property, net (art.10, para 3, item 1 of SIPCA)	(22,824)
Gains from transactions on property transfer (art.10, para. 3, item 2 of SIPCA)	(29,034)
Difference between market price and historical cost of properties (art.10, para. 3, item 3 of SIPCA)	44,644
<i>Adjusted financial result</i>	41,985
Dividend subject of distribution - 90% of the adjusted financial result	90%
Dividend payable	37,787
Dividend payable in addition in 2012 based on prior period	1,967
Total dividend in 2012	39,754

The amount of the dividend in 2011 is determined, as follows:

	Year ended 31.12.2011
Accounting profit, according to the statement of comprehensive income	57,232
<i>Adjustment for:</i>	
Expenses from subsequent valuation of property, net (art.10, para 3, item 1 of SIPCA)	(39,564)
Gains from transactions on property transfer (art.10, para. 3, item 2 of SIPCA)	(16,487)
Difference between market price and historical cost of properties (art.10, para. 3, item 3 of SIPCA)	20,276
<i>Adjusted financial result</i>	21,457
Dividend subject of distribution, in accordance with resolution of the General meeting of shareholders - 99.165% of the adjusted financial result	21,278
Dividend payable as of 31.12.2011 - 90% of the adjusted financial result	(19,311)
Dividend payable in addition in 2011 based on prior period	63
Total dividend in 2011	19,3744

Gross dividend of BGN 0.25 per share from the Company's equity has been voted at the regular annual General meeting of the shareholders held on May 17, 2012.

The Board of Directors of the Company defined the following conditions for the 2011 dividend payment:

1. Gross amount of dividend per share – BGN 0.25;
2. Net amount of dividend per share for individual shareholders – BGN 0.2375;
3. Commercial bank elected for the dividend payment – UBB AD;
4. Date on which the shareholder's composition is determined, according to the requirements of POSA – May 31, 2012;

16. DIVIDEND PER SHARE (CONTINUED)

5. Payment of dividend:

5.1. To shareholders with securities accounts in register A of the Central Depository AD (private accounts), the dividend will be paid via the UBB AD branches;

5.2. To shareholders with securities accounts in register B of the Central Depository AD (customer sub account with investment mediator), the dividend will be paid via the respective investment mediator, assisted by Central Depository AD;

6. Dividend payment opening date – June 20, 2012;

7. Dividend payment closing date – September 20, 2012.

8. After closing date within 5 year period each shareholder who has not received dividend for 2011 can receive it in cash or at bank account after submitting request at the Company's address - Sofia, Lozenets district, 1 Zlatovrach Str. or via fax – 02/4008331. Dividends not claimed and not received after the expiry of the five-year limitation period, are transferred to the Reserve Fund of the Company;

As of December 31, 2012 the Company has reported liabilities on unpaid dividends for 2011 and 2010 at the amount of BGN 32 thousand and BGN 3 thousand, respectively.

17. FINANCIAL RISK MANAGEMENT

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

Credit risk

The Company applies credit policies to attract customers with suitable credit reputation, for managing investment properties, appropriate credit history and financial abilities. The Company is not exposed to significant credit risks. Receivable balances are insured and monitored on a regular basis to ensure timely execution of necessary actions for their collection.

Liquidity risk

The Company monitors its cash flow position, and its debt maturity and overall liquidity position to assess its exposure to liquidity risk. The Company maintains sufficient level of cash and cash equivalents to finance its operations and to mitigate the effects of fluctuation in cash flows. The Company ensures the necessary funding through public offering of its shares and various credit facilities with financial institutions, using its investment properties as collaterals for loan agreements.

ADVANCE TERRAFUND REIT

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17. FINANCIAL RISK MANAGEMENT (CONTINUED)

As of December 31, 2012

FINANCIAL ASSETS	Up to 1 month	1-3 months	3 months- 1 year	Total
Cash and cash equivalents	12,545	43,541	19,932	76,018
Receivables from rents, net of impairment	1,526	-	1,347	2,873
Advances to suppliers	-	-	1,316	1,316
Interest receivables on deposits	119	882	161	1,162
Receivables from compensations	-	-	2	2
Court receivables	-	-	53	53
Other receivables	-	-	15	15
Total financial assets	14,190	44,423	22,826	81,439

FINANCIAL LIABILITIES	Up to 1 month	1-3 months	3 months- 1 year	Total
Advances received	-	164	313	477
Payables to suppliers and brokers	143	-	-	143
Payables to related parties	1,008	-	-	1,008
Dividends	35	-	37,787	37,822
Other liabilities	-	39	-	39
Total financial liabilities	1,186	203	38,100	39,489

As of December 31, 2011

FINANCIAL ASSETS	Up to 1 month	1-3 months	3 months- 1 year	Total
Cash and cash equivalents	5,073	10,545	32,007	47,625
Receivables from rents, net of impairment	866	-	1,624	2,490
Advances to suppliers	-	-	1,906	1,906
Interest receivables on deposits	195	234	627	1,056
Receivables from compensations	-	53	-	53
Court receivables	-	35	-	35
Other receivables	-	-	14	14
Total financial assets	6,134	10,867	36,178	53,179

FINANCIAL LIABILITIES	Up to 1 month	1-3 months	3 months- 1 year	Total
Advances received	-	278	31	309
Payables to suppliers and brokers	110	-	-	110
Payables to related parties	1,196	-	-	1,196
Dividends	3	-	19,311	19,314
Other liabilities	17	-	-	17
Total financial liabilities	1,326	278	19,342	20,946

ADVANCE TERRAFUND REIT

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17. FINANCIAL RISK MANAGEMENT (CONTINUED)

Interest rate risk

The value of the Company's assets depends on the dynamics of the market interest rates. The Company's activity is exposed to risk of interest rates fluctuations, as the income from interest-bearing fixed rate assets change as a result of market interest rates fluctuations. With respect to floating interest rate assets the Company is exposed to risk, resulting from changes in the interest rate index, to which the respective financial instrument is linked.

As of December 31, 2012	Up to 1 month	1-3 months	3 months-1 year	1-5 years	Non-interest bearing	Total
Assets						
Other receivables and advances	-	-	-	-	4,259	4,259
Interest receivables on deposits	119	882	161	-	-	1,162
Cash on hand	-	-	-	-	101	101
Cash at banks	12,444	43,541	19,932	-	-	75,917
Total assets	12,563	44,423	20,093	-	4,360	81,439

	Up to 1 month	1-3 months	3 months-1 year	1-5 years	Non-interest bearing	Total
Liabilities						
Payables to suppliers and brokers	-	-	-	-	143	143
Payables to related parties	-	-	-	-	1,008	1,008
Advances received	-	-	-	-	477	477
Dividend liability	-	-	-	-	37,822	37,822
Other	-	-	-	-	39	39
Total liabilities	-	-	-	-	39,489	39,489

As of December 31, 2011	Up to 1 month	1-3 months	3 months-1 year	1-5 years	Non-interest bearing	Total
Assets						
Other receivables and advances	-	-	-	-	4,498	4,498
Interest receivables on deposits	195	234	627	-	-	1,056
Cash on hand	-	-	-	-	179	179
Cash at banks	4,894	10,545	32,007	-	-	47,446
Total assets	5,089	10,779	32,634	-	4,674	53,179

	Up to 1 month	1-3 months	3 months-1 year	1-5 years	Non-interest bearing	Total
Liabilities						
Payables to suppliers and brokers	-	-	-	-	110	110
Payables to related parties	-	-	-	-	1,196	1,196
Advances received	-	-	-	-	309	309
Dividend liability	-	-	-	-	19,314	19,314
Other	-	-	-	-	17	17
Total liabilities	-	-	-	-	20,946	20,946

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17. FINANCIAL RISK MANAGEMENT (CONTINUED)

Currency risk

The Company is exposed to currency risk when dealing with financial instruments, denominated in foreign currency. Foreign currency transactions result in exchange rate gains and losses. As of December 31, 2012 and 2011 financial asset and investments are denominated in local currency and EUR. Due to the Currency board established in the country, the exchange rate of the Bulgarian lev is pegged to the Euro and do not expose the Company to currency risk. The Company has no exposures in currency different of BGN and euro as of that date.

Market risk

Market risk is a systematic risk, which influence the value of total assets. It arises from the macroeconomic environment characteristics and the capital market condition in the country. Market risk cannot be controlled by the Company and generally it cannot be diversified. Basic method to reduce the market risk and its components is the collection and processing of macroeconomic environment information and on which basis to forecast and adjust the investment policy to the expected changes in the environment.

The Company invests at least 80% of its portfolio in agricultural land and up to 20% in land in urban areas. Agricultural land is insignificantly exposed to risk of changes in prices and rents. The possible decrease in prices of agricultural properties is favorable for the Company's investment policy and the fixed increase in the rent price with 20% compared to the previous year increase the earnings from the investments. The risk increase in the sector refers mainly to real estate for construction and results from the global financial crisis. This situation cannot have a serious adverse effect on the financial position and performance of the Company's activities although the Company has taken measures to decrease the share of properties in urban territories with the purpose of limiting price risk. Advance Terrafund REIT continues its policy of investing in properties with high quality which respond to the necessities for the development of modern agriculture and renting to first-rate lessees at favorable for the Company conditions.

The structure of the investment portfolio is as follows:

	December 31, 2012		December 31, 2011	
	Fair value	% net assets at market value	Fair value	% net assets at market value
Agricultural land	141,224	90.61	140,677	90.13
Properties in urbanized territories	11,703	7.51	12,319	7.89
Properties in regulation	2,939	1.88	3,091	1.98
Total	155,866	100.00	156,087	100.00

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17. FINANCIAL RISK MANAGEMENT (CONTINUED)

Capital risk

Company manages its capital to achieve maximum return for its shareholders by optimizing the capital structure. The Company's strategy remains unchanged since 2011. The capital structure consists of cash and cash equivalents and equity (see notes 8 and 10).

18. EVENTS AFTER THE REPORTING PERIOD

In February and March 2013 the Company has sold 2,695 deca of land at an average price of BGN 1,120 per decare.

Since the beginning of 2013 until present, the Company has signed preliminary contracts for sale of 337 deca of land at the total amount of BGN 410 thousand. Advance of BGN 41 thousand have been received as of the date of the preparation of these financial statements. The final contracts for sale of the land, described above should be signed by April 15, 2013.

As of the date of the preparation of these financial statements a portion of the receivables under contracts for lease and rent of land at the amount of BGN 923 thousand has been received.