



“Comply or explain” report
according to the Bulgarian National Code for Corporate Governance
FairPlay Properties REIT, 2009

Sofia, 2010

At the beginning of 2006 a Program for good corporate governance of "FairPlay Properties" REIT was developed and approved by the Board of Directors. The program was developed in compliance with the international standards for good corporate governance of the Organization for Economic Cooperation and Development (OECD), approved on 18.12.2002 by the State Commission on Securities, now merged into the Financial Supervision Commission (FSC).

The program determined the rights and obligations of the separate participants in the company - the Board of Directors, the Management, the shareholders and interested parties and regulates the procedures and mechanisms for taking corporate decisions.

In October 2007 was adopted the National Corporate Governance Code (The Code). The company has signed a declaration that accepts and operates its activity in accordance with The Code's provisions.

The disclosure of corporate governance information is based of compliance with the present Code in accordance with the "Comply or explain" principle. This principle requires company to comply with the recommendation of the Code or to explain the reasons for not complying with individual provisions of the Code.

This report provides information on the implementation of The Code's recommendations.

This report is an integral part of the Annual financial statement of the company.

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I. Chapter One

CORPORATE BOARDS

FairPlay Properties REIT (FPP) has an one-tier system for government. In this case, the recommendations of the National Corporate Governance Code for two-tier system for government aren't applicable to FPP and are excluded from this document.

One-tier System

The Board of directors

1. Functions and Obligations

1.1. The Board of Directors must govern the company in a responsible and independent manner and set the vision, goals and strategies of the company in the best interests of all shareholders.

FPP applies this practice.

1.2. The Board of Directors should determine the strategic direction of the company and monitor its implementation.

FPP applies this practice.

1.3. The Board of Directors should establish the corporate risk management policy as well as control and ensure the proper functioning of the company's risk management and internal audit system.

FPP applies this practice. On the Annual General Meeting of Shareholders held on March, 2009, has elected Audit Committee.

1.4. The Board of Directors must ensure compliance of the company with legal, normative and contractual obligations.

FPP applies this practice.

1.5. The Board of Directors should be responsible for the elaboration and the proper functioning of the financial and information systems of the company.

FPP applies this practice.

1.6. The Board of Directors must provide directions, approve and control the implementation of company’s business plan, extraordinary material transactions and all other operations and actions required by the company’s by-laws.

FPP applies this practice.

1.7. The Board of Directors should define the company’s disclosure policy and establish guidelines for the relationships with investors. It must inform shareholders in a timely manner as required by the company by-laws.

FPP applies this practice.

1.8. During their mandate, the members of the Board of Directors should act in a professional and diligent manner and conduct themselves according to the commonly accepted principles of integrity and duty of care. The Board of Directors should adopt and follow a professional ethical code of conduct.

At present the company has not yet adopted an ethical code of conduct.

1.9. The Board of Directors must report to the General Meeting of Shareholders about its activities.

FPP applies this practice.

2. Election and removal of members of the Board of Directors.

2.1. The General Meeting of Shareholders must elect and remove members of the Board of Directors in compliance with the law and the company’s by-laws, while respecting the principles of continuity and ensuring the stability of the Board of Director’s work.

FPP applies this practice.

2.2. The responsibilities, tasks, duty of care and duty of loyalty of Board members to the company as well as the criteria and level of remuneration and the conditions for removal from the Board should be stipulated by contract.

FPP applies this practice.

3. Structure and Competence

3.1. The number of members and the structure of the Board of directors should be determined by the company by-laws.

FPP applies this practice.

3.2. The Board of Directors elected by the General Meeting of Shareholders should ensure its members carry out their tasks independently and impartiality in the best interest of the company. The number of the independent directors and their skills should be according to the shareholders' interests.

FPP applies this practice.

3.3. The Board of Directors should ensure the tasks and obligations of its members are properly distributed. The basic function on independent directors is to oversee and control the functions carried out by executive management and to contribute effectively to the company's performance in the best interest of all shareholders and in respect of their rights. The Chairman of the Board of Directors should be an independent director.

FPP applies this practice with one exception - the recommendation about the Chairman of the Board of Directors. The reason for this exception is the limited number of the member of the Board – three persons.

3.4. The required skills, rights and responsibilities of the Board of Directors must comply with the law and the company's by-laws and follow good professional standards and practice.

FPP applies this practice.

3.5. The members of the Board of Directors should have the knowledge and experience required for the position they take. After their election the new members of the Board of Directors have to attend an induction programme including legal and financial issue, related to their task and the company's activities and performance. Continued professional training of members of the Board of Directors should be encouraged.

FPP applies this practice.

3.6. The members of the Board of Directors should dispose a sufficient time to carry out their tasks and duties. The company's by-laws should limit the number of directorships a Board member can hold.

FPP applies this practice.

3.7. The election of the Board of Directors must be done through the transparency procedure which should ensure timely and complete information regarding the personal and professional qualities of the candidates. The number and consecutive terms of the members of the Board of Directors should provide for the company's efficient functioning and must be in compliance with legal requirements.

FPP applies this practice.

4. Remuneration

4.1. The amount and criteria for the remuneration of the members of the Board of Directors must be approved by the General Meeting of shareholders.

FPP applies this practice.

4.2. The amount and criteria for the remuneration should - in accordance with the law and good corporate governance practices – follow criteria such as:

4.2.1. Responsibilities and contribution of the member of the Board of Directors to the company's performance and results;

4.2.2. The availability and ability to select and retain a qualified and loyal members of the Board of Directors;

4.2.3. The need to have the interests of the members of the Board of Directors aligned with the long-terms interests of the company.

FPP applies this practice.

4.3. The remuneration of the executive members of the Board of Directors should consist of two parts: a fixed compensation and variable incentives.

4.3.1. In addition to a fixed compensation the company can offer to the executive Board members shares, options on shares and other appropriate financial instruments.

4.3.2. The guidelines and procedure for the issue and use of additional incentives to the members of the Board of Directors are set out in the company by- laws.

FPP applies this practice.

4.4. The remuneration of the independent directors should be based on their individual participation in Board meetings, their performance level in regard with their assigned tasks, their ability to oversee and control the operations of executive management and their effective contribution to the company's performance. Independent directors should not receive any additional remuneration in any form from the company.

FPP applies this practice.

4.5. The remuneration of the members of the Board of Directors must be disclosed in accordance with the law and the company's by-laws. Shareholders should have easy access to information concerning the remuneration of Directors.

FPP applies this practice. The Annual Management Report contains the complete information about the remuneration of the Board members.

5. Conflict of Interests

5.1. The members of the Board of Directors should prevent any real or potential conflict of interests.

FPP applies this practice.

5.2. The procedures for preventing and disclosing conflicts of interests should be provided for by the company by-law.

FPP applies this practice.

5.3. The members of the Board of Directors should immediately disclose any conflicts of interests and provide shareholders access to information about transactions concluded between the company and members of the Board or any related party.

FPP applies this practice.

5.4. Each conflict of interests involving the company should be disclosed to the Board of Directors.

FPP applies this practice.

5.5. A potential conflict of interests exists when the company intends to realize a transaction that involves:

- (a) a party related to or with financial interest linked to a member of the Board;
- (b) a member of the Board who is also an executive officer of the company.

6. Committees

6.1. The work of the Board of Directors should be assisted by committees. The Board of Directors should determine the need for setting up committees in accordance with the specific operations of the company.

6.2. The Board of Directors should establish at a minimum an audit committee, which should be comprised of the independent directors and experts.

FPP applies this practice. An Audit committee was elected at the General Meeting of the Shareholders held in March 2009.

6.3. The committees should be set up according to pre-established and adopted written terms of reference which should include the scope, tasks, modalities and reporting procedures of the committee.

FPP applies this practice.

II. Chapter Two

AUDIT AND INTERNAL CONTROL

1. In accordance with the established professional standards and requirements, the Board of Directors should - assisted by the audit committee - present in writing at the General Meeting of Shareholders a motivated proposal for the selection of an external auditor.

FPP will apply this practice. At present the motivation on the proposal for the election of an auditor is given verbally.

2. The principle of rotation should be applied in selecting and appointing an external auditor.

The first audit committee of the Company was elected in 2009. The Company has been in existence for 5 years to date. The governance of FPP has the good intention to apply this practice for the years ahead.

3. The company should set up an internal control system that guarantees effective reporting and disclosure of information.

FPP applies this practice.

4. The internal control system should be develop and operate in order to ensure the early identification of any material risks the company may face and to effectively manage those risks.

FPP applies this practice.

III. Chapter Three

PROTECTION OF SHAREHOLDERS' RIGHTS

1. Protection of Shareholders rights

The Board of Directors should ensure the equitable treatment of all shareholders, including minority and foreign shareholders, and should be responsible for the protection of their rights.

FPP applies this practice.

2. General Meeting of Shareholders

2.1. All shareholders must be able to participate in the General Meeting of Shareholders and to express their opinion.

FPP applies this practice.

2.1.1. Shareholders who have the right to vote should have the opportunity to exercise their voting rights through the use of a proxy at the General Meeting of Shareholders.

FPP applies this practice.

2.1.2. The Board of Directors should exercise effective oversight and ensure that necessary arrangements are made for the voting by authorized representatives (proxies) in accordance with the instructions of the shareholders and in accordance with the law.

FPP applies this practice.

2.1.3. The Board of Directors must establish rules for the organization and conduct of regular and extraordinary General Meeting of Shareholders. These rules must guarantee the equitable treatment of all shareholders and the right of each shareholder to express his/her opinion about the items on the agenda of the General Meeting of Shareholders.

2.1.4. The Board of Directors should establish the rules and the procedures for the conduct of General Meeting of Shareholders in a manner which doesn't make voting procedure unnecessarily difficult or expensive.

FPP applies this practice.

2.1.5. The Board of Directors should take action to encourage the participation of all shareholders at the General Meeting of Shareholders, including those who cannot make it physically by allowing the use of information technology (incl. Internet) whenever possible and necessary, and in accordance with item 2.1.4. of the present Code.

FPP applies this practice although the company has not yet adopted the use of information technology in connection with participation at the General Meeting of Shareholders.

2.2. All members of the Board should attend at the General Meeting of Shareholders.

FPP applies this practice.

2.3. The preparation of written materials for the General Meeting of Shareholders should comply with the following:

2.3.1. Documentation and reference materials related to the agenda of the General Meeting of Shareholders must be clear, accurate and to the point in order not to mislead the shareholders. All proposals concerning the major corporate events should be presented as separate items on the agenda of the General Meeting of Shareholders, including the proposal for the distribution of dividends.

FPP applies this practice.

2.3.2. The company should maintain a special section on its website describing the rights of shareholders and the rules and procedures for their participation in the General Meeting of Shareholders.

FPP applies this practice.

2.3.3. The Board of Directors should ensure court-authorized shareholders (shareholders with 5% or more shares) can place additional items on the agenda of the General Meeting of Shareholders.

FPP applies this practice.

2.4. The Board of Directors must guarantee the right of all shareholders to be informed on a timely basis about the decisions that have been made at the General Meeting of Shareholders.

FPP applies this practice.

IV. Chapter Four

DISCLOSURE OF INFORMATION

1. The Board of Directors must establish the company’s information disclosure policy in compliance with legal requirements and the company’s by-laws.

FPP applies this practice.

2. In accordance with established policies, the Board of Directors oversees the implantation and ensures proper support for an effective system for disclosure of information.

FPP applies this practice.

3. The system for disclosure of information should guarantee equal access to information to shareholders, investors and other stakeholders and should not allow for any abuse of internal information or insider trading.

FPP applies this practice.

4. The Board of Directors should guarantee that the system for information disclosure provide for comprehensive, timely, true and understandable information to allow for objective and well-informed decisions and assessments.

FPP applies this practice.

5. The Board of Directors should establish internal rules for the production and dissemination of mid-terms and annual reports. The Board of Directors should ensure that these rules are implemented and should oversee the proper disclosure of the information in a way that guarantees compliance with provision p.3 of this chapter.

FPP applies this practice.

6. As a part of well functioning system for the disclosure of information, the company should to set up and maintain a company website. This website should be operated in accordance with approved policies on the content, scope and regularity of information disclosure. The official information posted on the website should include at minimum:

- Information about the company;
- Information about the joint-stock structure;
- The company’s by-laws;
- Information about the governing bodies;
- Financial reports covering at least the previous 3 years;
- Materials for upcoming General Shareholder Meeting, minutes of the General Meeting of Shareholders of the last 3 years;
- Information about external auditors;
- Information about upcoming corporate events;
- Any information that is material to the company’s activities.

FPP applies this practice.

7. The company should regularly disclose information about its corporate governance. The disclosure of corporate governance information should state the company’s level of compliance with the present Code in accordance with the “Comply or explain” principle. This principle requires company to comply with the recommendation of the present Code or to explain the reasons for not complying with individual provisions of the Code.

FPP applies this practice.

V. Chapter Five**CORPORATE GOVERNANCE AND STAKEHOLDERS**

1. The corporate governance should ensure effective interaction with the company’s stakeholders. To this category fall certain interested parties and groups of individuals who are directly influenced by the company and who influenced and/or are in the position to influence the company, including for example: suppliers, clients, employees, creditors, civil society groups and others. The company should identify the stakeholders who are interested in its activities, on the base of their scale and sphere of influence and impact, as well as their role and relationship to sustainable development.

FPP applies this practice.

2. The company’s stakeholder policy must be in compliance with existing laws. Good corporate governance practices should require taking into consideration the interests of stakeholders in accordance with the principles of transparency, accountability and business ethics.

FPP applies this practice.

3. The Board of Directors should establish specific rules for addressing the interests of stakeholders. These rules should ensure appropriate stakeholder engagement when decisions requiring their input are made. These rules should also balance the interest of the company and the interest of the economic, social and ecological environment in which the company operates.

FPP applies this practice.

4. The Board of Directors should support effective stakeholder participation in accordance with the law and international good practices in matters of non-financial information disclosure and reporting. The company should disclose information about economic, social and environmental issues of concern to stakeholders, for example: anti-corruption policies, labor policies, policies regulating supplier and client relations, the company’s corporate social responsibility policies, environmental protections and nature preservation policies.

FPP applies this practice.

18.02.2010

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M. Moravenov,
(Chairman of the BD and Executive Director
of FairPlay Properties REIT)