

# **“Bulgarian Real Estate Fund”**

## **Forth Quarter Summary Report**



28 February 2011

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## 1 Overview of the Fund

Bulgarian Real Estate Fund /BREF/ is a close-ended real estate investment vehicle, headquartered in the capital of Bulgaria - Sofia. Incorporated in October 2004, it is among the first established Bulgarian REITs. The Fund was licensed by the FSC of Bulgaria in March 2005, and was listed on the Bulgarian Stock Exchange – Sofia (BSE) in April 2005.

As a real estate investment trust, BREF specializes in strategic property acquisitions and invests exclusively in high-performing real estates, in all property sectors across Bulgaria.

The principle investment objective of the Fund is to provide its shareholders with a combination of current income and long-term appreciation of the common stock value. To achieve the set targets, BREF implemented a strategy to acquire, develop, manage and lease properties that have superb potential for cash-flow growth and capital appreciation. With these objectives in mind, BREF constructed a portfolio of 9 active projects spread across all property sectors in Bulgaria, thus creating a well diversified and low risk portfolio.

Today, BREF is among the largest REITs in Bulgaria in terms of market capitalization and holds an excellent reputation among local banks, property owners and the investment community, a sure sign for its competent management and publicly approved results.

Stock Exchange	Ticker Symbol	Market Capitalization (31.12.2010)	Shares Outstanding
Bulgarian Stock Exchange Sofia	5BU (BREF)	EUR 16,226,487	60,450,000

## 2 Portfolio

BREF has engaged in numerous projects ranging in size, activity and geographical location. Our well diversified portfolio may provide some protection from the ups and downs of individual properties such as occupancy rates, defaults on rents, and downturns in industry sectors or local markets.

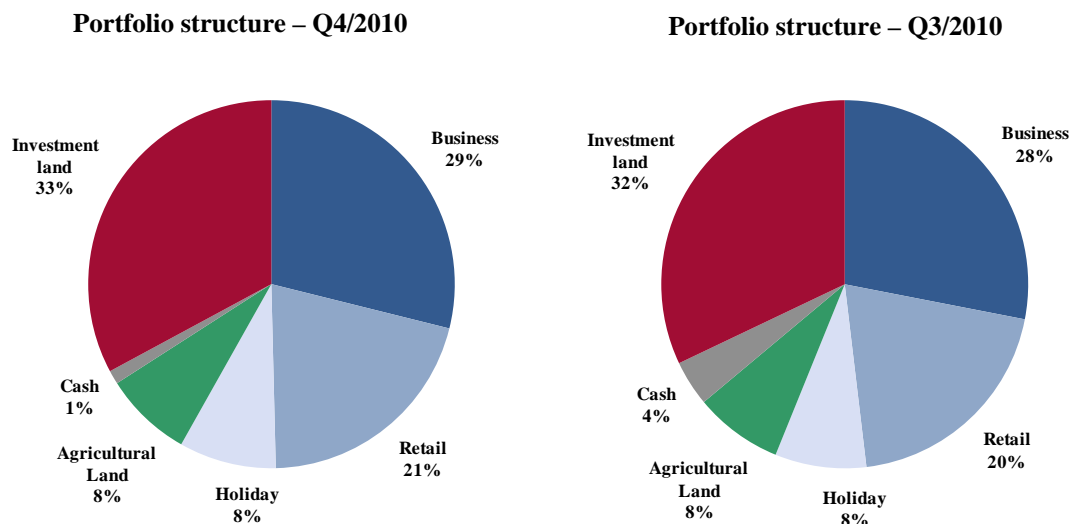
### 2.1 Portfolio Structure

In the forth quarter of 2010 the structure of BREF’s portfolio slightly changed due to a decrease in the cash and cash equivalents as opposed to an increase in the share of investment, business, and retail plots. This change resulted from paying the dividends for 2009 and from selling agricultural land, which reduced both the amount of cash and cash equivalents and agricultural land. The key highlights during the last three months were as follows:

- Renting out the rest of available premises in Kambanite Business Center, thus reaching 100 % occupation of the building.
- Reconstruction of the lastly rented premises in Kambanite Business Center and consignment of the new offices.
- Sale of 3,356.30 dka of agricultural land in South-West Bulgaria for the amount of BGN 1,040 thousand or EUR 2,034 thousand.
- Active marketing of the apartments and garages in apartment house Sequoia II – Borovetz.
- Paying the dividends for 2009.

The projects managed by BREF in the end of December 2010 were nine, diversified in all sectors of the real estate market in Bulgaria.

*Figure 1: Investment allocation in types of market sector*



The Fund’s last quarter activity was directed towards managing four out of the nine projects. The table below presents the projects segmented in accordance to their degree of completion:

**Table 1 – BREF’s investment projects (all amounts in EUR thousands)**

Project	Stage of the project	Size of project	Invested till 31.12.2010	Future investments
<b>Completed projects</b>				
"Mr. Bricolage" - sale and leaseback	Operational management	10,172	10,172	0
Agricultural land	rent / for sale	3,810	3,810	0
Kambanite Business Centre	renting out / for sale	14,180	14,180	0
Apartment house "Sequoia2" - Borovetz	for sale	1,888	1,888	0
<b>Projects in progress</b>				
Seaside Holiday Village	suspended	9,203	2,308	0
<b>Pipeline projects</b>				
Investment plots near Veliko Tarnovo*	change of regulation	262	262	n.a
Investment plots near Vidin*	suspended	301	301	n.a
Investment plots in Sofia - Ring road*	change of regulation	3,822	3,822	n.a
Investment plots in Sofia - Mladost IV*	suspended	11,746	11,746	n.a
<b>Total</b>		<b>55,385</b>	<b>48,489</b>	<b>0</b>

\* The value of the project will be determined after preliminary project development

From the above-mentioned projects “Mr. Bricolage” – sale and leaseback, Agricultural land and Kambanite Business Center are currently operational, as apartment house “Sequoia II” is set for sale. The next group consists of projects in progress, which time period spans from the preliminary design to final development or disposal of the future buildings. At the moment there is only one project in this category and the company has frozen its progress. The last four projects are in a stage of changing the regulation status and BREF envisages for part of them this process to be completed this or next year.

## 2.2 Project – “Mr. Bricolage” – sale and leaseback

In the second half of 2006, BREF concluded two “sale and leaseback” deals with the French “Do-It-Yourself” chain “Mr. Bricolage”. Situated in Varna and Sofia, the stores are two of the best performing branches of the retail chain in the country.

### Project parameters:

"Mr.Bricolage" - sale and leaseback	Varna Store	Sofia Store	Total
Plot area:	12,184 sq.m.	15,174 sq.m.	27,358 sq.m.
Total built-up area:	5,375 sq.m.	7,610 sq.m.	12,985 sq.m.
Purchase amount:	EUR 4 M	EUR 6 M	EUR 10 M
Acquired in:	August 2006	November 2006	-
Monthly rent:	EUR 36,060	EUR 54,087	EUR 90,147
Rental agreement start:	August 17th, 2006	November 15th, 2006	-

Note: The mentioned purchase price excludes the acquisition costs of the properties.

The total monthly rent for the stores, which amounts to EUR 90,147, ensures the Fund will generate stable yearly income of EUR 1,081,764 for the rest of the rent period.

Aiming to efficiently utilize the raised capital, in 2006 BREF refinanced 70% the acquisition cost with an investment bank loan from Bulgarian Post Bank in the amount of EUR 7 million.

In the last quarter, there were no delays from the tenant in terms of rent payments. The Fund has made payments for all due amounts for insurance and property taxes of the both stores. During the period a planned repair of the retail in Sofia was carried out.

## 2.3 Project – Agricultural land

In the last quarter the Fund disposed of 3,356 dka of agricultural land with which in the end of December 2010 the total owned agricultural land plots dropped to 23,300 dka. The total amount of the realized sales during the quarter was EUR 2,034 thousand. The disposed assets are predominantly located in North-western Bulgaria.

The total invested amount in the project since its start in 2005 was EUR 3,810 thousand, with the average purchase price, including the acquisition costs being EUR 163.5 per dka. Most of the purchased properties are III and IV category, with an average size of each plot of about 10-15 dka.

By the end of December 2010 the share of the rented properties (19,440 dka) as percent of the total owned equalled to 83.43%. The average rent price for the economic 2010/2011 year is BGN 21.17 per dka (or EUR 10.82 per dka).

**Project parameters:**

<b>Agricultural land</b>	
Acquired area	23,300 dka
Investment	EUR 3.8 M
Acquisition price per dka	EUR 163.5
Leased area	19,440 dka
% of leased area	83.4%
Average annual rent per dka	EUR 10.8

## 2.4 Project – Kambanite Business Centre

Kambanite Business Center (KBC) is an office building with seven above-ground floors offering retail and office areas and with total built-up area of 16,266 sq.m. The complex is located on Sofia Ring Road, across from the Business Park Sofia, Commercial Park Sofia, Residential Park Sofia, new IKEA and among other key developments.

In the fourth quarter of 2010 the activity on the project was concentrated in letting the rest available premises in the building. As a result of the efforts made during the quarter a new annex with the anchor tenant Hewlett-Packard Global Delivery Bulgaria (HP) was signed according to which additional 1,151.19 sq.m. were let. During 2010 these premises were used by different tenants who vacated them in the end of 2010 and the beginning of 2011. The new premises for HP are currently being reconstructed and will be consigned to the tenant in the end of the first quarter of 2011.

In addition to the above mentioned annex in the end of the last quarter a new contract was signed with Onda Coffee Break EAD. According to it a coffee bar will be set up on the ground floor and is expected to open in the spring.

Another highlight was the contract signed in January 2011 with “Dance Academy - 2” who rented the last 343.13 sq.m of KBC, thus reaching 100 % occupation of the building. The premises will be used as a dancing school.

**Project parameters:**

<b>Kambanite Business Centre</b>	
Built-up area - office part	16,266 sq.m
Parking lots	217
Occupancy rate	100%
Anchor tenant	Hewlett-Packard

## 2.5 Project – Apartment house “Sequoia 2” - Borovetz

In the end of 2007 BREF became an owner of “Sequoia 2” apartment house located in the oldest ski resort in Bulgaria – Borovetz. The total built-up area is 3,527.3 sq.m.

The “Sequoia 2” apartment house consists of 36 apartments situated on 5 floors and 9 garages. The Sequoia complex is situated close to a picturesque pine forest within walking distance of

the very centre of the resort and only 50 meters from the bottom Station of New Gondola which is part of SUPER BOROVETZ project.

By the end of the year quarter BREF has finalized the sale of seven apartments. A campaign for selling the rest of the apartments is in progress.

At the scope of optimizing the revenues from the project BREF has started a campaign for letting the vacant garages in the building. During the last quarter contracts for two of the garages were signed.

**Project parameters:**

Apartment house "Sequoia 2" - Borovetz	
Plot area	512 sq.m
Total built-up area	3,527 sq.m
Apartments left for sale	29
Current Investment	EUR 1.89 M

## 2.6 Project – Seaside Holiday Village

The project envisages the construction of Seaside Holiday Village on the Bulgarian seaside. The project will be a gated community, which consists of residential, retail and entertainment areas. It will include 291 apartments, two swimming-pools, two restaurants, and a retail and entertainment center.

As a result of the world economic crisis, the current market conditions in the holiday resort sector and the large supply of properties on the Bulgarian Seacoast, BREF suspended the project.

In the next reporting periods BREF will monitor closely the development of the conditions in the holiday real estate market, which will determine its future actions on the project.

**Project parameters:**

Seaside Holiday Village	
Plot area	28,758 sq.m
Project built-up area	17,963 sq.m
Invested until 2010	EUR 2.3 M

## 2.7 Project – Investment plots near Veliko Turnovo

The property is located near the city of Veliko Turnovo where the Fund acquired two unregulated land plots with total size of 203,248 sq.m. The property is well-situated, which gives excellent opportunities to develop retail region, where large retail chains may establish franchise units.

In the last quarter the regulation renewal procedure was not completed, as the management of BREF expects for it to be finalized in short terms, after which the project will be suspended until more favourable market conditions arise.

**Project parameters:**

Investment Plots near Veliko Turnovo	
Total plots' area	203,248 sq.m
Purchase price	EUR 0.26 M
Status	rezoning procedure

## 2.8 Project – Investment plots near Vidin

Another property with high perspective for future development owned by BREF is the land plot with total size of 86,008 sq.m. located near Vidin. The property was won in a tender procedure executed by the Ministry of Defense in October 2006.

The acquired property is located near the ferry port of Vidin on the main road connecting the city to the ferry. Another key highlight is the proximity of the land plot to the new bridge over the Danube River, currently under construction.

Currently the activity of the Fund regarding the future development of the property was suspended until more favorable market conditions arise.

### Project parameters:

Investment Plots near Vidin	
Total plots' area	86,008 sq.m
Purchase price	EUR 0.3 M
Status	rezoning procedure

## 2.9 Project – Investment plots in Sofia – Ring Road

Another project with good potential for future development are the acquired properties in the vicinity of Vitosha, neighboring the KBC project. The total size of the acquired properties of BREF was 18,052 sq.m.

The area is featured by good transport infrastructure of the Ring Road, proximity to the developing Residential Park Sofia and Business Park Sofia and majority of other commercial sites. All these make the project attractive for future development.

In the past year BREF built up a temporary parking on part of the property in service of the tenants in Kambanite Business Center.

BREF expects the regulation procedure to be completed, after which the future development of the project will be suspended until more favorable market conditions arise.

### Project parameters:

Investment Plots in Sofia - Ring Road	
Total plots' area	18,052 sq.m
Purchase price	EUR 3.82 M
Status	rezoning procedure

## 2.10 Project – Investment plots in Sofia - Mladost IV

In 2007 BREF acquired 21 land plots with a total size of 79,253 sq.m situated on Sofia's Ring road in its crossing point with "Alexander Malinov" Blvd, to the west of Business Park Sofia. After the sale in 2008 of 9 properties with a total size of 31,908 sq.m, the Fund remained in ownership of 12 properties with a total size of 47,345 sq.m.

In 2008 the municipality of Sofia initiated a procedure for preparation and approval of new structural plan for the area, which will delay the investment intentions of the Fund for the period after the approval of the new structural plan.

### Project parameters:

Investment Plots, Sofia - Mladost IV district	
Total plots' area	47,345 sq.m
Purchase price	EUR 11.75 M
Status	rezoning procedure



## 3 Financial Highlights Q4 / 2010.

### 3.1 Summarized Financial Statements

The following financial statements are created in full compliance with the Financial Supervision Commission standards and are based on the non-audited quarterly financial statements from the beginning of 2010.

*Table 2 – Balance sheet from the beginning of the year until 31<sup>st</sup> Dec 2010.*

(All amounts in EUR '000)	31.12.2010	30.09.2010	30.06.2010	31.03.2010
<b>ASSETS</b>				
<b>Non-current Assets</b>				
Investment property	30,876	32,319	32,878	33,056
Plant and equipment	15	16	17	18
Intangible assets	3	3	4	3
Deferred expenses	235	242	258	272
<b>Total Non-current Assets</b>	<b>31,130</b>	<b>32,581</b>	<b>33,157</b>	<b>33,349</b>
<b>Current Assets</b>				
Investment property held for sale	16,995	16,917	16,871	16,803
Advances to suppliers	0	0	8	16
Trade receivable	681	815	795	823
Cash and cash equivalents	595	1,482	811	549
Other current assets	5	2	2	1
Deferred expenses	110	92	105	103
<b>Total Current Assets</b>	<b>18,386</b>	<b>19,307</b>	<b>18,592</b>	<b>18,294</b>
<b>TOTAL ASSETS</b>	<b>49,516</b>	<b>51,888</b>	<b>51,749</b>	<b>51,643</b>
<b>EQUITY AND LIABILITIES</b>				
<b>Equity</b>				
Share capital	30,908	30,908	30,908	30,908
Share premium	5,016	5,016	5,016	5,016
Retained earnings	1,920	3,754	3,406	3,049
<b>Total equity</b>	<b>37,844</b>	<b>39,677</b>	<b>39,330</b>	<b>38,972</b>
<b>Non-current liabilities</b>				
Interest bearing loan	8,309	8,598	8,909	9,194
Derivative financial instrument	351	445	472	434
<b>Total Non-current liabilities</b>	<b>8,660</b>	<b>9,043</b>	<b>9,381</b>	<b>9,627</b>
<b>Current liabilities</b>				
Current part of non-current liabilities	1176	1158	1139	1114
VAT payable	19	21	7	75
Payables to management company	87	301	172	1
Payables to the personnel and SIC	2	4	2	1
Provisions for dividends due	1,298	1,214	1,214	1,214
Trade and Other current liabilities	430	470	505	638
<b>Total Current liabilities</b>	<b>3,013</b>	<b>3,168</b>	<b>3,038</b>	<b>3,044</b>
<b>Total liabilities</b>	<b>11,672</b>	<b>12,211</b>	<b>12,419</b>	<b>12,671</b>
<b>TOTAL EQUITY AND</b>	<b>49,516</b>	<b>51,888</b>	<b>51,749</b>	<b>51,643</b>

**Table 3 – P&L statement by quarters and accumulated for the year ending on 31<sup>st</sup> Dec 2010.**

(All amounts in EUR '000)	Q4 - 2010	Q3 - 2010	Q2 - 2010	Q1 - 2010	2010
Income from sale of assets	535	574	236	147	1,491
Rental income	793	781	773	756	3103
Revenue from interest and other financial revenues	14	26	44	9	93
Other financial income	94	28	0	0	24
Other Income	595	15	16	0	614
<b>Total Revenue</b>	<b>2,031</b>	<b>1,424</b>	<b>1,068</b>	<b>912</b>	<b>5,325</b>
Value of sold assets	(492)	(593)	(183)	(125)	(1,393)
Interest expense	(167)	(170)	(182)	(140)	(658)
Management fees	(149)	(147)	(146)	(148)	(590)
Materials expense	(44)	(17)	(39)	(33)	(134)
BOD and employees salaries expense	(9)	(8)	(7)	(12)	(35)
Loss from fair value adjustments	(1,515)	0	0	0	(1,515)
Loss on financial instruments	0	0	(39)	(59)	0
Other expenses	(190)	(141)	(115)	(160)	(593)
<b>Total expenses</b>	<b>(2,566)</b>	<b>(1,076)</b>	<b>(711)</b>	<b>(675)</b>	<b>(4,918)</b>
<b>Profit/(loss) for the period</b>	<b>(535)</b>	<b>348</b>	<b>357</b>	<b>237</b>	<b>406</b>
<b>Weighted average number of shares in the quarter (in thousands)</b>	<b>60,450</b>	<b>60,450</b>	<b>60,450</b>	<b>60,450</b>	<b>60,450</b>
<b>Earnings per share - basic and diluted</b>	<b>(0.009)</b>	<b>0.006</b>	<b>0.006</b>	<b>0.004</b>	<b>0.007</b>

## 3.2 Liquidity

In the forth quarter of 2010 the change in liquidity affects mainly the quick and cash ratios. Their decreased values originate from paying the dividends for 2009; even though the reduction is partially offset by the cash & cash equivalents received from agricultural land sales.

The current liquidity ratio registers a slight increase from 6.09 in the end of the third quarter to 6.10 in the end of the forth quarter. The reported uplift we attribute to the increased book value of Kambanite Business Center. In contrast with this ratio the quick and cash ratios moved down from 0.75 to 0.46 and from 0.47 to 0.20 respectively. This decrease results from paying the dividends for 2009, as mentioned above.

For the next quarter, the Fund expects to improve its liquidity due to accumulation of cash & cash equivalents from receiving rent payments and their increased nominal value in consequence of the new rental contracts.

**Table 4 – Liquidity ratios from the beginning of the year until 31<sup>st</sup> Dec 2010.**

Liquidity Ratios	31.12.2010	30.09.2010	30.06.2010	31.03.2010
Current ratio	6.10	6.09	6.12	6.01
Quick ratio	0.46	0.75	0.57	0.49
Cash ratio	0.20	0.47	0.27	0.18

### ■ Internal sources of liquidity

During the last quarter of 2010 BREF continued to have significant internal sources of liquidity.

- **Short-term (current) assets**

**Table 5A** – Sources of liquidity by quarters until 31<sup>st</sup> Dec 2010.

Liquidity sources	31.12.2010	30.09.2010	30.06.2010	31.03.2010
<b>Current Assets</b>				
Investment property held for sale	16,995	16,917	16,871	16,803
VAT receivable	0	0	0	0
Advances to suppliers	0	0	8	16
Trade receivable	681	815	795	823
Cash and cash equivalents	595	1,482	811	549
Other current assets	5	2	2	1
Deferred expenses	110	92	105	103
<b>Total Current Assets</b>	<b>18,386</b>	<b>19,307</b>	<b>18,592</b>	<b>18,294</b>

The overall structure of the current assets remained unchanged during the last quarter. The main share (92.44%) of the current assets was taken by the “Investment property held for sale” account. This account constituted of the Fund’s properties held for sale, and namely: the office part of Kambanite Business Center and the apartment house in Borovetz. The reported rise of this account in comparison to the previous quarter is a result of the increased book value of Kambanite Business Centre due to the improvements made and the revaluation of the apartment house in Borovetz.

The second big source of liquidity (3.70%) was the “Trade receivables” account. This account marked a slight decrease due to the reduced receivables from agricultural land during the accounted period. BREF expects this account to grow with the accumulation of receivables from agricultural land which are usually paid off in the end of October.

The next significant source of liquidity (3.27%) remained the “Cash and cash equivalents” account, even though its amount decreased to EUR 595 thousand due to the payments made during the period. The Fund envisages the amount of this indicator to gradually increase as a result of the upcoming rent proceeds on the let properties.

The management of BREF expects the amount of the current assets to increase with the growth of both cash & cash equivalents and trade receivables from agricultural land.

○ **Short-term (current) liabilities**

**Table 5B** – Sources of liquidity by quarters until 31<sup>st</sup> Dec 2010.

Liquidity sources	31.12.2010	30.09.2010	30.06.2010	31.03.2010
<b>Current liabilities</b>				
Current part of non-current liabilities	1,176	1,158	1,139	1,114
VAT payable	19	21	7	75
Payables to management company	87	301	172	1
Payables to the personnel and SIC	2	4	2	1
Provisions for dividends due	1,298	1,214	1,214	1,214
Trade and Other current liabilities	430	470	505	638
<b>Total Current Liabilities</b>	<b>3,013</b>	<b>3,168</b>	<b>3,038</b>	<b>3,044</b>

The amount of the current liabilities has decreased with the overall liabilities structure remaining unchanged. The most significant share 43.09% of the current liabilities takes the “Provisions for dividends due” account amounting to EUR 1,298 thousand. The dividend for 2010 has to be revised after the auditor’s report in the end of March 2011 and the subsequent voting on the annual General Assembly.

The next share of 39.05% in the current liabilities structure remained the account “Trade payables” which was formed by: the liability of BREF to pay guarantees on the construction of KBC in amount of EUR 136 thousand, provisions on construction works in amount of EUR 176 thousand, provisions on uncollectible agricultural land rent receivables in amount of EUR 37 thousand and other trade payables associated with the activity of the Fund.

The biggest decrease in the current liabilities from EUR 301 thousand to BGN 87 thousand takes the “Payables to the management company” account. This reduction results from paying off the accumulated during the year monthly fees due to the Management Company.

The smallest shares take the “Payables to personnel” and “VAT payables” accounts due to the payments made during the period. In the future these accounts will be formed by the due VAT and salaries by the end of the last month of the quarter. The reported payables will be paid off in the beginning of the month following the one of the report.

In the next reporting period BREF expects the current liabilities to rise in result of the accumulation of guarantees on the construction of new offices for HP.

### ■ External sources of liquidity

The external sources of liquidity are the equity and the two investment bank loans, which are explained in details in point 3.3 of the Capital resources.

Considering the fact that BREF has frozen its investment intentions until more favorable market conditions arise, the Fund has sufficient amount of available funds to meet its operational needs in the following periods. The Fund will concentrate its activity predominantly in managing the yielding projects of the Fund, such as Kambanite Business Center, Mr. Bricolage stores and the agricultural land owned by the Fund.

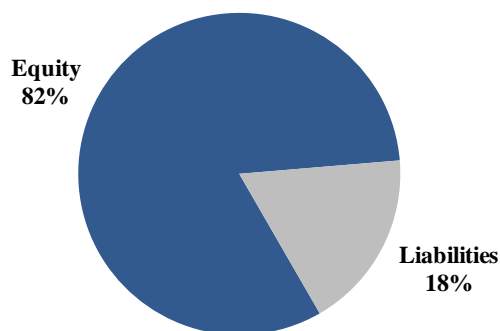
### 3.3 Capital resources

In the end of December 2010 the long term capital of the Fund, equity and external financing, reported a drop of EUR 2.12 million or 4.4% to reach EUR 48,275 thousand. The downward change was mainly caused by the reported net loss for the period and the provisions for dividends for 2010. Another factor dragging down the long term capital during the period is the paid-off principal of the two investment loans of the Fund.

Despite the reported decrease, the structure of the long-term capital remained similar in comparison with the structure reported for the previous quarter. The equity takes 82% and the remaining 18% are external financing. The capital structure is presented in the figure below.

*Figure 2: Allocation between equity and external financing*

**BREF Long-term Capital Structure (Q4/2010)**



*Table 6 – Leverage ratios*

Leverage ratios	31.12.2010	30.09.2010	30.06.2010	31.03.2010
Debt-to-Equity	0.31	0.31	0.32	0.33
Non-Current Assets-to-Equity ratio	0.82	0.82	0.84	0.86
Long-term-Debt-to-Non-Current-Asset ratio	0.27	0.26	0.27	0.28

## ■ Equity

In the last quarter the equity of the Fund fell by 4.6% to EUR 37,844 thousand. We attribute the decrease solely to the realized net loss for the period at the amount of EUR 535 thousand resulting from revaluations and the funds set off for the due 2010 dividends.

BREF envisions its equity to increase due to the positive financial result next quarter reflecting the expected rise in rental income.

*Table 7 – Total equity by quarters until 31<sup>st</sup> Dec 2010.*

Equity (in thousands)	31.12.2010	30.09.2010	30.06.2010	31.03.2010
Share capital	30,908	30,908	30,908	30,908
Share premium	5,016	5,016	5,016	5,016
Retained earnings	1,920	3,754	3,406	3,049
<b>Total equity</b>	<b>37,844</b>	<b>39,677</b>	<b>39,330</b>	<b>38,972</b>

## ■ External financing

- In the last quarter the Fund has paid all due payments on the investment loans utilized for the acquisition of the projects „Mr. Bricolage” and “Kambanite Business Center”. The total non-paid principal on the two loans as of December 2010 is EUR 9.58 million. The maturity dates of the loans are December 2016 and October 2018 for „Mr. Bricolage” and “Kambanite Business Center” respectively.

## ■ Capital expenses during the next periods under review

The investment strategy of the Fund for 2011 will be exclusively directed towards the operational management of the undergoing profitable projects. The Fund does not plan to initiate new investment projects but we stay attentive to the market dynamics and new opportunities.

We envisage utilizing the current cash available and the cash flow from the yielding projects to finance BREF current projects. However, should a necessity for more funding arise BREF is prepared to use additional amount of debt.

## 3.4 Assets structure

BREF’s the total assets as of the end of December 2010 declined by 4.57% to EUR 49,516 thousand in comparison with the third quarter of 2010 when total assets amounted at EUR 51,888 thousand. The latter we attribute to the paid during the period dividends for 2009 and to the written-off agricultural plots which were sold during the period.

*Table 8 – Asset structure*

Asset structure (thousand EUR)	31.12.2010	% share	30.09.2010	% share	30.06.2010	31.03.2010
<b>Non-current assets incl.</b>	<b>31,130</b>	<b>63%</b>	<b>32,581</b>	<b>63%</b>	<b>33,157</b>	<b>33,349</b>
- total property	30,876	62.4%	32,319	62.3%	32,878	33,056
<b>Current assets incl.</b>	<b>18,386</b>	<b>37%</b>	<b>19,307</b>	<b>37%</b>	<b>18,592</b>	<b>18,294</b>
- trade receivable	681	1.4%	815	1.6%	795	823
- investment property held for sale	16,995	34.3%	16,917	32.6%	16,871	16,803
- cash and cash equivalents	595	1.2%	1,482	2.9%	811	549
<b>Total assets</b>	<b>49,516</b>	<b>100%</b>	<b>51,888</b>	<b>100%</b>	<b>51,749</b>	<b>51,643</b>

Despite the reported decrease in total assets their overall structure remained the same with respect to the previous quarter with only slight changes in the structure of current assets and particularly in the share of “Cash & cash equivalents” and “Investment property held for sale” accounts. Long-term assets take the largest share - 63%, whereas the current assets take the remaining 37%.

BREF’s forecasts for the next year envisage the total assets and more specifically the cash & cash equivalents to increase as a result of receiving the due rent payments and to decline after paying off the due dividend for 2010.

### 3.5 Financial Results

BREF's activity in the forth quarter of 2010 was concentrated in two main directions:

- Operational management of the KBC project and the revenues generated from it.
- Sale of agricultural land plots in North-Western Bulgaria.

#### ■ Revenue from operations

The total revenues during the reported period are EUR 2,031 thousand which means an increase with respect to the previous quarter. We attribute the reported growth to the positive revaluation of property in the end of 2010 reflected in the "Other revenues" account and to the reduced liability on the interest swap. The rest of the revenues remained relatively unchanged with respect to the previous quarter.

**Table 9** – Revenues by quarters and accumulated by 31<sup>st</sup> Dec 2010.

Revenue (in thousand EUR)	Q4 - 2010	Q3 - 2010	Q2 - 2010	Q1 - 2010	2010
Income from sale of assets	535	574	236	147	1,491
Rental income	793	781	773	756	3,103
Revenue from interest and other financial revenues	14	26	44	9	93
Other financial income	94	28	0	0	24
Other Income	595	15	16	0	614
<b>Total revenue</b>	<b>2,031</b>	<b>1,424</b>	<b>1,068</b>	<b>912</b>	<b>5,325</b>

In the forth quarter of 2010 the largest share 39.02% of the revenues took the rental revenue of EUR 793 thousand, comprised of the realized rent income from the "Mr. Bricolage" stores, the let office premises in the KBC building and income from rent of agricultural land. The reported increase in rental revenue we attribute to the newly-let office premises in KBC.

The second big share (29.31%) in BREF's revenues structure was the "Other income" which includes the income from property revaluations at the amount of EUR 590 thousand.

The third big share (26.36%) is taken by the "Income from sale of assets". The reported amount is close to the one reported in the third quarter of 2010 and constitutes mainly of agricultural land sales.

The realized "Revenues from interest" amounted to EUR 14 thousand in the last quarter of 2010. The reported decrease is a result of the smaller amount of interest-bearing assets possessed by the Fund. This income is expected to remain relatively unchanged during the next reporting period.

BREF envisages the amount of income from property revaluations and from sale of assets to diminish in the next quarter, whereas the rental income is expected to rise due to the increased occupancy rate of the KBC building.

#### ■ Expenses from operations

The total expenses in the past quarter increased due to realized net losses from fair value adjustments on the owned investment properties.

**Table 10 – Realized expenses by quarters and accumulated by 31<sup>st</sup> Dec 2010**

Expenses (in thousand EUR)	Q4 - 2010	Q3 - 2010	Q2 - 2010	Q1 - 2010	2010
Value of sold assets	(492)	(593)	(183)	(125)	(1,393)
Interest expense	(167)	(170)	(182)	(140)	(658)
Management fees	(149)	(147)	(146)	(148)	(590)
Materials expense	(44)	(17)	(39)	(33)	(134)
BOD and employees salaries expense	(9)	(8)	(7)	(12)	(35)
Loss from fair value adjustments	(1,515)	0	0	0	(1,515)
Loss on financial instruments	0	0	(39)	(59)	0
Other expenses	(190)	(141)	(115)	(160)	(593)
<b>Total expenses</b>	<b>(2,566)</b>	<b>(1,076)</b>	<b>(711)</b>	<b>(675)</b>	<b>(4,918)</b>

The main component or 59.04% in the expenses structure for the past quarter represented the amount of realized net losses from fair value adjustments. The reported expense is for the year ending on 31<sup>st</sup> Dec 2009.

The next component (19.19%) in the total expenses structure was the book value of sold assets. The change results from the disposed agricultural land properties during the period.

Another substantial share (6.5%) was formed by the interest expenses including the accounted and paid-off interest on loans as well as the expenses on the interest swap used on the “Mr. Bricolage” loan.

The next share of 5.82% is taken by the “Management and success fees” account which remains relatively unchanged with respect to the levels from previous periods.

Another substantial expense during the quarter (7.39%) is the “Other expenses” account comprised of property taxes and other fees on the owned properties due for the past quarter.

## ■ Financial result

BREF realized a net loss of EUR 535 thousand for the forth quarter of 2010 which we attribute to the realized net losses from fair value adjustments. If the net loss from fair value adjustments in the end of the year was neglected, the Fund would report an operating profit of EUR 389 thousand, i.e. a 12% increase compared to the previous quarter.

Accounting for the reported fair value adjustments the accumulated net income for 2010 amounts at EUR 406 thousand in profit against EUR 2,260 thousand loss in 2009. The management of BREF expects the operating income in the next reporting periods to increase as a result of the higher rent proceeds from the newly-let premises in KBC office building and to decrease if there are no new sales of properties.

**Table 11 – Financial result quarters and accumulated by 31<sup>st</sup> Dec 2010**

Financial Result	Q4 - 2010	Q3 - 2010	Q2 - 2010	Q1 - 2010	2010
Revenues	2,031	1,424	1,068	912	5,325
Expences	(2,566)	(1,076)	(711)	(675)	(4,918)
<b>Net profit/loss for the period</b>	<b>(535)</b>	<b>348</b>	<b>357</b>	<b>237</b>	<b>406</b>

## ■ Financial results per share

The NAV per share of the Fund inclined with 4.62% to reach EUR 0.626 per share in the last quarter of 2010. We attribute the decrease in the NAV to the realized net loss for the period quarter of 2010 in amount of EUR 535 thousand.

**Table 12 – Financial results per share**

Results per share (EUR '000)	Q4 - 2010	Q3 - 2010	Q2 - 2010	Q1 - 2010
Earnings	(535)	348	357	237
Earnings per share (EPS)	(0.009)	0.006	0.006	0.004
Net asset value (NAV)	37,844	39,677	39,330	38,972
Common shares outstanding	60,450	60,450	60,450	60,450
NAV per share	0.626	0.656	0.651	0.645
NAV per share increase / decrease	-4.62%	0.88%	0.92%	0.61%

■ **Potential risks in the next quarter**

The main risks which reflect and will continue to reflect on the activity of BREF are thoroughly described in the Registration document of the Fund (Part II of the IPO document), approved by the Financial Supervision Commission of Bulgaria in March 2005. Since then the following changes in the associated risks occurred:

**Market Risk**

The properties owned by BREF are subject to market risk associated with the unclear future of the real estate market in Bulgaria. This could lead to realizing a lower sale price on the properties in the portfolio as well as low liquidity of the assets set for disposition. The management of BREF considers that the Fund is subject to such a risk, baring in mind the investment properties in its property portfolio. Despite that the owned properties are well diversified in different segments and regions in Bulgaria and therefore they offer favourable conditions for good return in the future.



## 4 Share performance

In the past year the stock market in Bulgaria remained in isolation from the trends on the world stock exchanges. In contrast with the growth of the leading indices in Europe and the USA, the Bulgarian SOFIX lost 15% of its value. The main reasons behind the negative statistics were the lack of interest on behalf of the foreign investors in the peripheral developing EU markets and the fears for the debt crisis in Greece. The fears that Greece may bankrupt reflected directly on the performance of the Bulgarian indices because of the large amount of Greek capitals invested in Bulgaria and the corresponding fears for negative consequences on the Bulgarian economy.

Few were the companies traded on the Bulgarian Stock Exchange whose share prices increased in 2010. BREF ranked third rising its market capitalization by 42% to BGN 0.53 per share. The major part of the growth was realized in the last two months of the year when it was announced that BREF has let 95% of the premises in KBC.

In 2010 the Fund's shares had a dividend yield of 12.3% after the General Assembly on 23 June 2010 when the shareholders voted the distribution of the 2009 profit. The voted dividend was BGN 0.0392 per share and price per share was BGN 0.32.

Summarized trading details for the 52 week period – 1<sup>st</sup> January 2010 – 31<sup>st</sup> December 2010:

- Opening Price – BGN 0.360 (5 January 2010)
- Closing Price – BGN 0.525 (30 December 2010)
- Highest Price – BGN 0.530 (29 December 2010)
- Lowest Price – BGN 0.310 (18 August 2010)
- Total Trading Volume – 16,615,543 shares
- Turnover for the period – BGN 6,220,430 (EUR 3,176,444)
- Weighted average price – BGN 0.37
- Market Capitalisation (30.12.2010) – BGN 31,736,250 (EUR 16,226,487)

*Figure 3 – Financial results per share*

**BREF Share Price Performance  
(1.01.2010 - 31.12.2010)**

