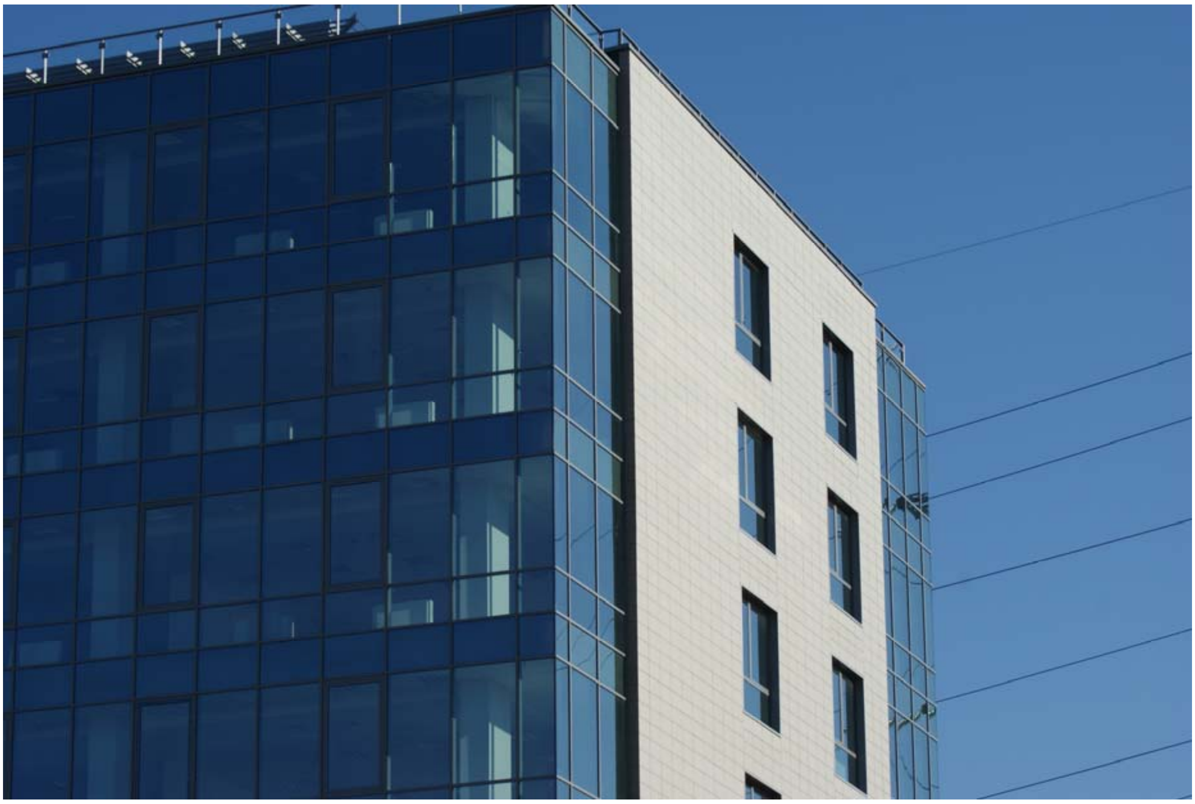
“Bulgarian Real Estate Fund”

Annual Report 2010



10 May 2011

Content

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 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.

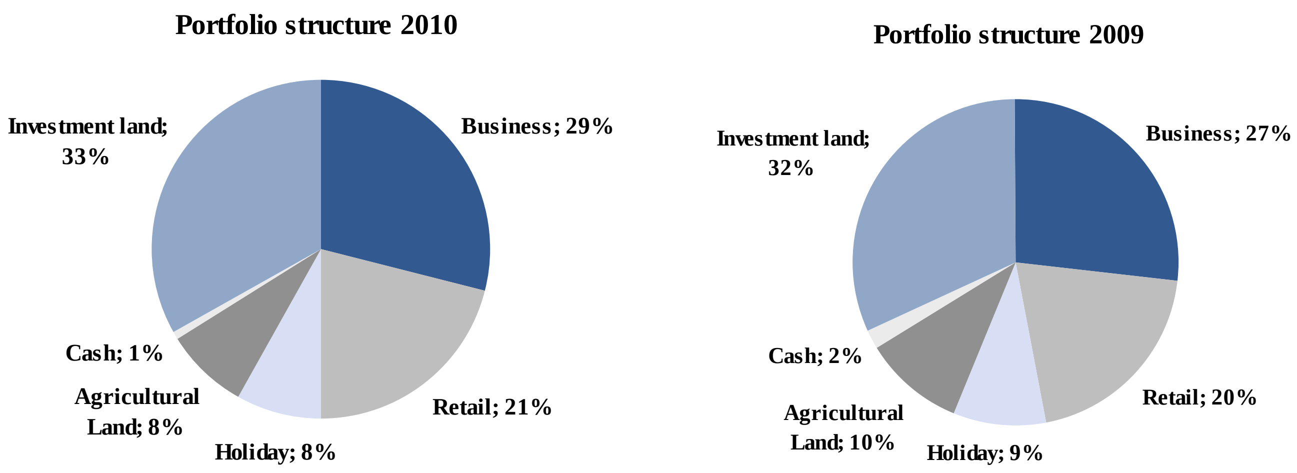
2.1 Portfolio Structure

In the past year the structure of BREF's portfolio slightly changed due to a decrease in the shares of agricultural land and cash as opposed to an increase in the shares 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 largest increase was registered in the share of business plots due to improvements made in Kambanite Business Center. The key highlights during the past year were as follows:

- Renting out the rest of available premises in Kambanite Business Center, thus increasing the occupation of the building to 97.3% as of the end of 2010. In January 2011 was signed a contract for letting the rest 2.7% and full occupancy was reached.
- Reconstruction of the lastly rented premises in Kambanite Business Center and consignment of the new offices.
- Sale of 8,485dka agricultural land in North-West Bulgaria for the amount of BGN 2,719 thousand or EUR 1,390 thousand.
- Sale of three apartments in apartment house Sequoia II – Borovetz with total built-up area of 209.88sq.m.
- Carrying out planned repairs of the "Mr. Bricolage" store situated in Varna.

The projects managed by BREF as of 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 year activity was directed towards managing four out of the nine projects. The rest five projects were temporarily suspended awaiting more favourable conditions on the real estate market. 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
Completed projects				
"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	14,178	14,178	0
Apartment house "Sequoia2" - Borovetz	for sale	1,888	1,888	0
Projects in progress				
Seaside Holiday Village	suspended	9,203	2,308	0
Pipeline projects				
Investment plots near Veliko Tarnovo*	change of regulation	262	262	n.a
Investment plots near Vidin*	suspended	301	301	n.a
Invetstment plots in Sofia - Ring road*	change of regulation	3,822	3,822	n.a
Invetstment plots in Sofia - Mladost IV*	suspended	11,746	11,746	n.a
Total		55,383	48,488	0

* 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, whereas 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 ten-year rent period.

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

In 2010, 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 both stores. During the period a planned repair of the retail in Varna was carried out. In July 2010 a storm damaged the roof of the store. The insurance covers the damage and it has already been fixed.

2.3 Project – Agricultural land

Last year the Fund acquired additional 53.3dka agricultural land at the total amount of EUR 9,203. The acquisition was made either through direct purchase or through substitution of existing for new plots. The purpose of these operations was to pool the agricultural land plots already owned by the Fund and thus to improve their quality. During the year BREF disposed of 8,485dka of agricultural land with which in the end of December 2010 the total owned agricultural land plots dropped to 23,300dka. The total amount of the realized sales and exchanges during the year was EUR 1,390 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 2010 the share of the rented properties (19,380 dka) as percentage of the total owned agricultural land equalled to 83.17%. The average rent price for the agricultural 2010/2011 year is BGN 21.17 per dka (or EUR 10.82 per dka) which represents a 22% growth on an annual basis.

<u>Project parameters:</u>

Agricultural land	
Aquired area	23,300 dka
Investment	EUR 3.8 M
Acquisition price per dka	EUR 163.5
Leased area	19,380 dka
% of leased area	83,2%
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 16,266sq.m. The building has its own open parking with about 217 parking lots. 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.

<u>Project parameters:</u>

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

In 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 reported period new annexes with the anchor tenant Hewlett-Packard Global Delivery Bulgaria (HP) were signed according to which additional 5,919.2sq.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 spring of 2011.

In addition to the above mentioned annexes in 2010 two new contracts were signed with ING Bank and Onda Coffee Break EAD. According to them a new disaster centre of the bank and a coffee bar are set up in the building.

Another highlight was the contract signed in January 2011 with "Dance Academy - 2" which rented the last free premises of KBC to use them as a dancing school. As a result, the occupancy of the building reached 100%.

Table 2 *– Structure of the tenants of KBC as of 31st March 2011*

Tenant	% of total built-up area
Hewlett-Packard Global Delivery Bulgaria (HP)	86,16%
Hewlett-Packard Bulgaria (HP)	6,16%
Kenar-Kulinar	3,26%
Dance Academy - 2	2,70%
Onda Coffee Break EAD	1,06%
ING Bank - branch Sofia	0,66%
TOTAL	100,00%

In relation to the signed rent contracts a number of reconstructions were carried out during the year and the last ones were completed in the end of March 2011 when the premises were consigned to their occupants.

Apart from the reconstructions of the newly-let premises during the year the Fund has performed other amendments of the building which increased its value. The first of them was the installation of a new electric power supply from substation Kambanite which ensured two independent sources of electricity. Another amendment was the construction of a second entrance which provides direct access to the building from South, "Alexander Malinov" Blvd.

Aiming to make KBC a green building during the year BREF implemented a series of energy efficiency measures: sun protecting lamellas were installed on the South façade of Section A; solar panels for water heating were mounted on the roof of the building.

During the current year the Fund will direct its efforts to market and sell the building.

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 3,527.3sq.m.

The "Sequoia 2" apartment house consists of 36 apartments situated on 5 floors and 9 underground 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.

In 2010, BREF has finalized the sale of three apartments with total built-up area of 209.88sq.m. A campaign for selling the rest 29 apartments and 9 garages 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 past year 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 a Seaside Holiday Village on the Bulgarian seacoast. 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 203,248sq.m. The property is well-situated, which gives excellent opportunities to develop a retail region, where large retail chains may establish franchise units.

In the last quarter the regulation renewal procedure was not completed. The management of BREF expects that it will 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 86,008sq.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 relates the acquired properties in the vicinity of Vitosha Mountain, neighboring the KBC project. The total size of the acquired properties was 18,052sq.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 like Technopolis and IKEA. All these make the project attractive for future development.

In 2009, BREF built up a temporary parking on part of the property in service of the tenants in Kambanite Business Center.

In 2011, BREF expects the regulation procedure to be completed, after which the future development of the project will be postponed 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 79,253sq.m situated at Sofia's Ring road on its crossing point with "Alexander Malinov" Blvd, to the west of Business Park Sofia. After the sale in 2008 of 9 of the acquired plots, the Fund remained in ownership of 12 properties with a total size of 47,345sq.m.

In 2008, Sofia Municipality 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 2010.

3.1 Summarized Financial Statements

The following financial statements are created in full compliance with the International Accounting standards and are based on the audited annual financial statements for 2010 and 2009.

***Table 3** – Balance sheet as of 31st Dec 2010 and 31st Dec 2009.*

(All amounts in EUR '000)	31.12.2010	31.12.2009
ASSETS		
Non-current Assets		
Investment property	30,895	33,141
Plant and equipment	18	18
Intangible assets	4	6
Deferred expenses	244	270
Total Non-current Assets	**31,161**	**33,435**
Current Assets		
Trading and investment property held for sale	16,986	16,861
Trade and other receivables	830	465
Cash and cash equivalents	595	1,024
Deferred expenses	134	92
Total Current Aseets	**18,545**	**18,442**
TOTAL ASSETS	**49,706**	**51,877**
EQUITY AND LIABILITIES		
Equity		
Share capital	30,907	30,907
Share premium	5,016	5,016
Retained earnings	1,947	2,813
Total equity	**37,870**	**38,736**
Non-current liabilities		
Interest bearing loans	8,329	9,517
Derivative financial instrument	351	375
Total Non-current liabilities	**8,680**	**9,892**
Current liabilities		
Current part of non-current liabilities	1,177	1,081
Provisions for dividends due	1,225	1,214
Trade and Other current liabilities	754	954
Total Current liabilities	**3,156**	**3,249**
Total liabilities	**11,836**	**13,141**
TOTAL EQUITY AND LIABILITIES	**49,706**	**51,877**

***Table 4** – P&L statement for the years ending on 31st Dec 2010 and on 31st Dec 2009.*

(All amounts in EUR '000)	2010	2009
Income from sale of assets	1,491	1,751
Rental income	2,837	2,257
Interest income	93	738
Gain on derivative financial instrument	24	0
Other Income	319	552
Total Revenue	**4,764**	**5,298**
Value of sold assets	(1,393)	(1,438)
Interest expense	(672)	(470)
Management and success fees	(638)	(797)
Direct operating expenses arising from properties	(413)	(389)
Agency fees and local taxes related to sale of properties	(65)	(248)
BOD remunerations	(15)	(20)
Employee salaries	(16)	(14)
Loss from fair value adjustments	(925)	(3,601)
Loss on derivative financial instrument	0	(141)
Other expenses and foreign exchange differences	(268)	(440)
Total expenses	**(4,405)**	**(7,558)**
Profit/(loss) for the period	**359**	**(2,260)**
Weighted average number of shares in the quarter (in thousands)	**60,450**	**60,450**
Earnings per share - basic and dilluted	**0.006**	**(0.037)**

3.2 Liquidity

***Table 5** – Liquidity ratios as of 31st Dec 2010.*

Liquidity Ratios	31.12.2010	31.12.2009
Current ratio	5.88	5.67
Quick ratio	0.49	0.49
Cash ratio	0.19	0.31

In 2010 liquidity ratios moved in different directions. The current ratio increased to 5.88 in 2010 compared to its value of 5.67 in 2009. The reported change resulted from an increase in current assets and a respective decrease in current liabilities during the reported period. In 2010 current assets rose by 0.55% to EUR 18,545 thousand as opposed to EUR 18,442 thousand in 2009. Meanwhile current liabilities fell by 2.89% to EUR 3,156 thousand from EUR 3,249 thousand in 2009.

Major contribution to the reduction in current liabilities has the decrease in payables, particularly payables to the management company. Their lower value originates from paying the accumulated in previous periods management and success fees.

In contrast with the current ratio the cash ratio moved down due to a substantial decline in cash and cash equivalents which resulted from paying the dividends for 2009 and the outstanding trade liabilities of the Fund.

During the current year, the Fund’s liquidity will mainly depend on the payment of the dividends due for 2010 and the generated rental income. In 2011 overall liquidity is expected to improve gradually. Cash inflows from possible sale of assets would have a positive impact on liquidity.

Internal sources of liquidity

In 2010 BREF continued to have significant internal sources of liquidity. The main highlight is the opposite direction of change in current assets and current liabilities.

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

***Table 6A** – Sources of liquidity as of 31st Dec 2010.*

Liquidity sources	31.12.2010	%	31.12.2009	%
Current Assets				
Trading and investment property held for sale	16,986	91.59%	16,861	91.43%
Trade and other receivables	830	4.48%	465	2.52%
Cash and cash equivalents	595	3.21%	1,024	5.55%
Deferred expenses	134	0.72%	92	0.50%
Total Current Assets	**18,545**	**100%**	**18,442**	**100%**

The total amount of current assets increases by 0.55% to EUR 18,545 thousand as opposed to EUR 18,442 thousand a year earlier. The overall structure of current assets remained relatively unchanged during the past year with only slight changes in the shares of trade receivables and cash and equivalents.

The main share (91.59%) of current assets was taken by the "Trading and 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 Sequoia II in Borovetz. The reported rise of this account in comparison to the previous year is a result of the increased book value of Kambanite Business Centre due to the improvements made.

The second big source of liquidity was the "Trade and other receivables" account. In 2010 their value rose by 78% to EUR 830 thousand from EUR 465 thousand in 2009. The reported uplift we attribute to the accumulated new receivables from the anchor tenant of KBC regarding the reconstructions of the newly-let office premises performed by BREF. The expenses made are for the tenant's account and the amount due was received in Q1 of 2011. Other components of this account are the receivables from agricultural land (payable once a year), receivables on property sold in previous periods, as well as interest receivables. The latter increased during the reported period as a result of the accumulated interest on the Fund's bank deposit with maturity in 2011.

The next significant source of liquidity is the "Cash and cash equivalents" account, even though its amount decreased to EUR 595 thousand due to the payments made during the period, including the due dividends for 2009.

The management of BREF expects the amount of the current assets to increase gradually with the accumulation of trade receivables and to decrease as a result of paying the Fund's liabilities to the construction companies involved in the reconstructions of the new office premises. Additional reduction in cash and cash equivalents is expected after paying the dividends for 2010.

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

***Table 6B** – Sources of liquidity as of 31st Dec 2010.*

Liquidity sources	31.12.2010	%	31.12.2009	%
Current liabilities				
Current part of non-current liabilities	1,177	37.30%	1,081	33.28%
Provisions for dividends due	1,225	38.79%	1,214	37.37%
Trade and Other current liabilities	754	23.91%	954	29.36%
Total Current Liabilities	**3,156**	**100%**	**3,249**	**100%**

The total amount of current liabilities has decreased by 2.89% to EUR 3,156 thousand with the overall liabilities structure remaining unchanged. The slight increase in the current part of loans and the provisions for dividends has been offset by an increase in trade payables.

The most significant share (38.79%) of the current liabilities takes the "Provisions for dividends due" account amounting to EUR 1,225 thousand. The accounted provisions for dividends due constitute 90% of the financial result defined under Art.10 of the Act on the Special Investment Purpose Companies. The final amount of dividends to be distributed for 2010 will be determined and voted on the annual General Assembly.

The next share of 37.3% in the current liabilities structure remained the account "Current part of non-current liabilities" formed by the principal and interest installments with regard to the two bank loans of the Fund. This account grows every year as the monthly principal payments increase in amount. As a result, the "Current part of non-current liabilities" account will continue to increase in the next reporting periods until the loans are fully paid.

The relative share of "Trade payables" declines from 29.36% in 2009 to 23.91% in 2010 reflecting the reduction in payables from EUR 954 thousand to EUR 754 thousand. The reported change we attribute mainly to the smaller amount of payables to the management company as a result of paying off the accumulated non-paid management and success fees for 2009. Other liabilities attributable to the "Trade payables" account are: the liabilities of BREF to pay the construction companies performing reconstructions of KBC, provisions on construction works, VAT payables and other trade payables associated with the activity of the Fund.

In the next reporting period BREF expects the current liabilities to decrease in result of paying off the amounts due to construction companies.

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. 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, and to pay the dividends due for 2010. 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 2010 the long term capital of the Fund, equity and external financing, reported a drop of 4.26% to reach EUR 46,199 thousand compared to EUR 48,253 thousand in 2009. The downward change was caused by the reduction in outstanding long-term bank loans and the provisions made for dividends for 2010 at the amount of EUR 1,225 thousand.

Despite the reported decrease, the structure of the long-term capital remained similar. The main change in it concerns the share of equity which increased to 82% in 2010. The capital structure is presented in the figure below.

Figure 2: *Allocation between equity and long-term external financing*

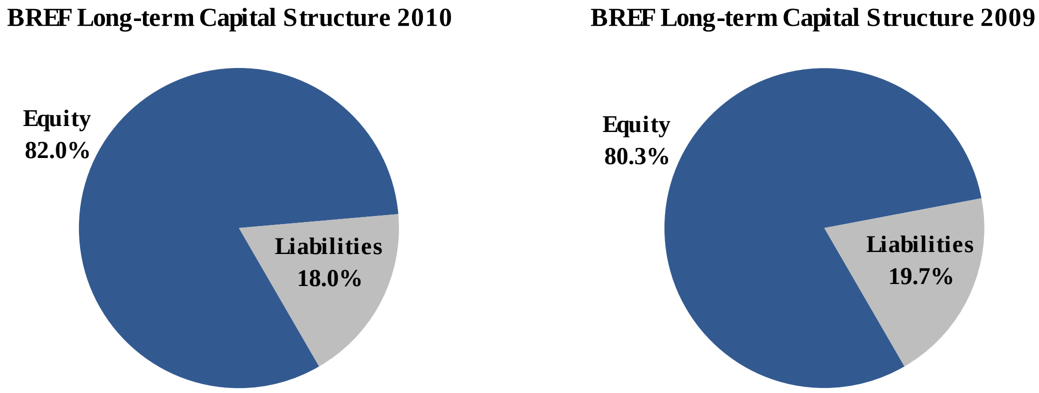


Table 7 *– Leverage ratios*

Leverage ratios	31.12.2010	31.12.2009
Debt-to-Equity	0.31	0.34
Non-Current Assets-to-Equity ratio	0.82	0.86
Long-term-Debt-to-Non-Current-Asset ratio	0.27	0.28

* The derivative financial instrument and the current part of long-term loans are excluded from the calculation of the above ratios

Equity

In 2010 the Fund's equity fell to EUR 37,870 thousand or 2.2% drop compared to its level a year ago. We attribute the decrease to the provisions made for dividends at the amount of EUR 1,225 thousand which is partially offset by the realized profit for the period at EUR 359 thousand.

Table 8 *– Total equity as of 31st Dec 2010.*

Equity (in thousands)	31.12.2010	31.12.2009
Share capital	30,907	30,907
Share premium	5,016	5,016
Retained earnings	1,947	2,813
Total equity	**37,870**	**38,736**

External financing

In the past year the Fund has not taken any new loans and it has been paying regularly all due installments on the two investment loans utilized to carry out 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.

Loans parameters:

Parameter	Investment loan Mr. Bricolage	Investment loan KBC
Remainder of the principal as of 31.12.2010 (thousand EUR)	€ 5,045	€ 4,535
Maturity date	Dec 2016	Oct 2018
Effective interest rate for 2010	5.80%	8.33%

Capital expenses during the next year

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 4.2% to EUR 49,706 thousand in comparison with December 2009 when total assets amounted at EUR 51,877 thousand. The latter we attribute to the paid during the period dividends for 2009, to the losses from fair-value adjustments and to the written-off agricultural plots which were sold during the period.

***Table 9** – Asset structure*

Asset structure (thousand EUR)	31.12.2010	% share	31.12.2009	% share
Non-current assets incl.	**31,161**	**63%**	**33,435**	**64%**
- total property	*30,895*	62.2%	*33,141*	63.9%
Current assets incl.	**18,545**	**37%**	**18,442**	**36%**
- trade and other receivables	*830*	1.7%	*465*	0.9%
- investment property held for sale	*16,986*	34.2%	*16,861*	32.5%
- cash and cash equivalents	*595*	1.2%	*1,024*	2.0%
Total assets	**49,706**	**100%**	**51,877**	**100%**

Despite the reported decrease in total assets their overall structure remained the same with respect to the previous year with only slight increase in the share of current assets to 37%.

Long-term assets declined by 6.8% to reach EUR 31,161 thousand, which led to a decrease in their relative share of total assets by one percentage point to 63%. Contribution to this change had the reported reduction in the book value of the Fund's properties as a result of fair-value adjustments (EUR 954 thousand) and the written-off agricultural plots which were sold during the period (EUR 1,294 thousand).

The overall structure of current assets changed slightly during the year as "Investment property held for sale" remained the biggest component, whereas the second big component "Cash & cash equivalents" marked a decline and was replaced by "Trade and other receivables". As stated above in this report the driving forces for the decrease in the share of cash and cash equivalents are the paid off dividends for 2009, the paid off liabilities to the management company and the investments on reconstructions of Kambanite Business Center.

BREF's forecasts for 2011envisage 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 2010 was concentrated in operational management of the yielding profitable projects as well as selling agricultural plots and the apartments of Sequoia 2 - Borovetz.

Revenue from operations

The total revenues during the reported period are EUR 4,764 thousand which represents a decrease of 10% with respect to the previous year. We attribute the reported decline to the lower interest income and income from sale of assets, although it is partially offset by the record amount of rental income.

***Table 10** –Revenues accumulated in 2010 and 2009.*

Revenue (in thousand EUR)	2010	% share	2009	% share
Income from sale of assets	1,491	31.31%	1,751	33.05%
Rental income	2,837	59.55%	2,257	42.60%
Interest income	93	1.95%	738	13.93%
Gain on derivative financial instrument	24	0.49%	0	0.00%
Other Income	319	6.69%	552	10.41%
Total revenue	**4,764**	**100%**	**5,298**	**100%**

In 2010 the largest share 59.55% of the revenues took the rental income, followed by the income from sale of assets with 31.33% share of total revenue. The biggest change was registered in the share of interest income which fell from 13.9% in 2009 to 1.95% in 2010.

In 2010 rental income was to the amount of EUR 2,837 thousand which is a record high value since the Fund was established. Major contribution to this result had the considerably higher rents collected from Kambanite Business Center (KBC) which marked a 65.6% growth to EUR 1,598 thousand against EUR 965 thousand a year earlier. This growth is a direct consequence of the increased occupancy rate of the building and the fact that 2010 was the first full year to collect rents from KBC tenants.

The second big share is taken by the “Income from sale of assets” which decreases by 14.8% to EUR 1,491 thousand as a result of the smaller amount of agricultural land sold during the period.

The “Interest income” marked the largest decline. In 2010 their amount decreased about 8 times due to the substantially smaller amount of available funds in BREF’s bank accounts. Additional contribution to this result had the payment of the dividends due for 2009 and the falling interest rates on bank deposits.

The “Other income” account also marked a decrease - 42.2% to EUR 319 thousand. This account reflects the movements in impairment provision of receivables. In 2010 the impaired receivables were successfully collected by BREF and the provisions made for them were recognized back as income.

Expenses from operations

The total expenses in the past year amounted to EUR 4,405 thousand which represents a decrease of 41.7% compared to 2009. The reported decline is due to considerably lower net losses from fair value adjustments on the owned investment properties.

***Table 11** – Realized expenses in 2010 and 2009*

Expenses (in thousand EUR)	2010	% share	2009	% share
Value of sold assets	(1,393)	31.62%	(1,438)	19.03%
Interest expense	(672)	15.25%	(470)	6.22%
Management and success fees	(638)	14.49%	(797)	10.54%
Direct operating expenses arising from properties	(413)	9.38%	(389)	5.15%
Agency fees and local taxes related to sale of properties	(65)	1.49%	(248)	3.28%
BOD remunerations	(15)	0.34%	(20)	0.26%
Employee salaries	(16)	0.36%	(14)	0.19%
Loss from fair value adjustments	(925)	21.00%	(3,601)	47.65%
Loss on derivative financial instrument	-	0.00%	(141)	1.85%
Other expenses and foreign exchange differences	(268)	6.07%	(440)	5.83%
Total expenses	**(4,405)**	**100%**	**(7,558)**	**100%**

In contrast with 2009 when the main component of expenses was the loss from fair-value adjustments, in 2010 the main share 31.62% is taken by the book value of assets sold. As a result of the less agricultural land sold during the year the book value of the written-off assets decrease. The book value of the sold three apartments in Borovetz (Sequoia 2) is also calculated in this account.

Despite the large decline as a share of total expenses from 47.65% to 21% the losses from fair-value adjustments continue to take a substantial share in the expenses structure. Their value falls 3.9 times to EUR 925 thousand reflecting the better balance in the real estate market in 2010.

The next component (15.25%) in the total expenses structure was the interest expense. In 2010 their amount increased to EUR 672 as a result of the investment loan taken in the second half of 2009 to refinance the expenses made on developing KBC Project. BREF has been making interest payments throughout 2010 whilst in 2009 interest was due only for the months after receiving the loan.

The next share is taken by the “Management and success fees” account which decreases to EUR 638 thousand from EUR 797 thousand in 2009. This change is due to the smaller amount of accounted success fee reflecting the lower sales of properties compared to the previous year.

Other main components in the structure of expenses are the accounts “Other expenses” (EUR 268 thousand), “Direct operating expenses arising from properties” (EUR 413 thousand) and “Agency fees and local taxes related to sale of properties” (EUR 65 thousand).

Financial result

In difference with the previous year in 2010 BREF realized a profit of EUR 359 thousand. 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 1,284 thousand.

***Table 12** – Financial results for 2010 and 2009.*

Financial Result	2010	2009
Revenues	4,764	5,298
Expences	(4,405)	(7,558)
Net profit/loss for the period	**359**	**(2,260)**

Accounting profit divided to the average shares outstanding during the year gives earnings per share (EPS) of EUR 0.006. Provisions for dividends for 2010 amount to EUR 1,225 thousand or EUR 0.020 gross dividend per share.

The NAV per share of the Fund declined by 2.2% on a yearly basis to reach EUR 0.626 per share. We attribute the decrease in NAV to the made provisions for dividends for 2010 at the amount of EUR 1,225 thousand which has been substracted from the Fund’s equity.

***Table 13** – Financial results per share*

Results per share (EUR '000)	2010	2009
Earnings	359	(2,260)
Earnings per share (EPS)	0.006	(0.037)
Net asset value (NAV)	37,870	38,736
Commom shares outstanding	60,450	60,450
NAV per share	0.626	0.641
Dividend per share	0.020	0.020
Fair value per share	0.647	0.661

Potential risks

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.

Interest rate risk

As of the end of 2010, considering the two investment bank loans of the Fund, it is exposed to interest rate risk regarding possible changes in the interest rate levels. In order to minimize this risk BREF has concluded a contract for interest swap according to which it exchanges a floating for a fixed interest rate. The Fund is in constant contact with the creditor bank regarding optimization of the interest payments.

Foreign currency risk

The management of BREF considers that the fund’s exposure to foreign exchange risk is minimal due to the fact that the majority of foreign transactions are denominated in Euro, which is currently fixed at BGN 1.95583 for 1 EUR.

Liquidity risk

The company is exposed to liquidity risk with regard to paying off its current liabilities. Currently the Fund has enough available funds to finance its operative and investment activity. Considering the funds deposited in bank accounts, the current rental income and the amount of dividends due for 2010, in the next year the company has enough liquid sources to cover its needs and there is no necessity to borrow from external sources.

Construction risk

Provided that the construction works being carried out by BREF are minimal at the moment and all past construction has been completed, the Fund considers that it is not exposed to this kind of risk.

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 97.3% 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 – 1st January 2010 – 31st 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*