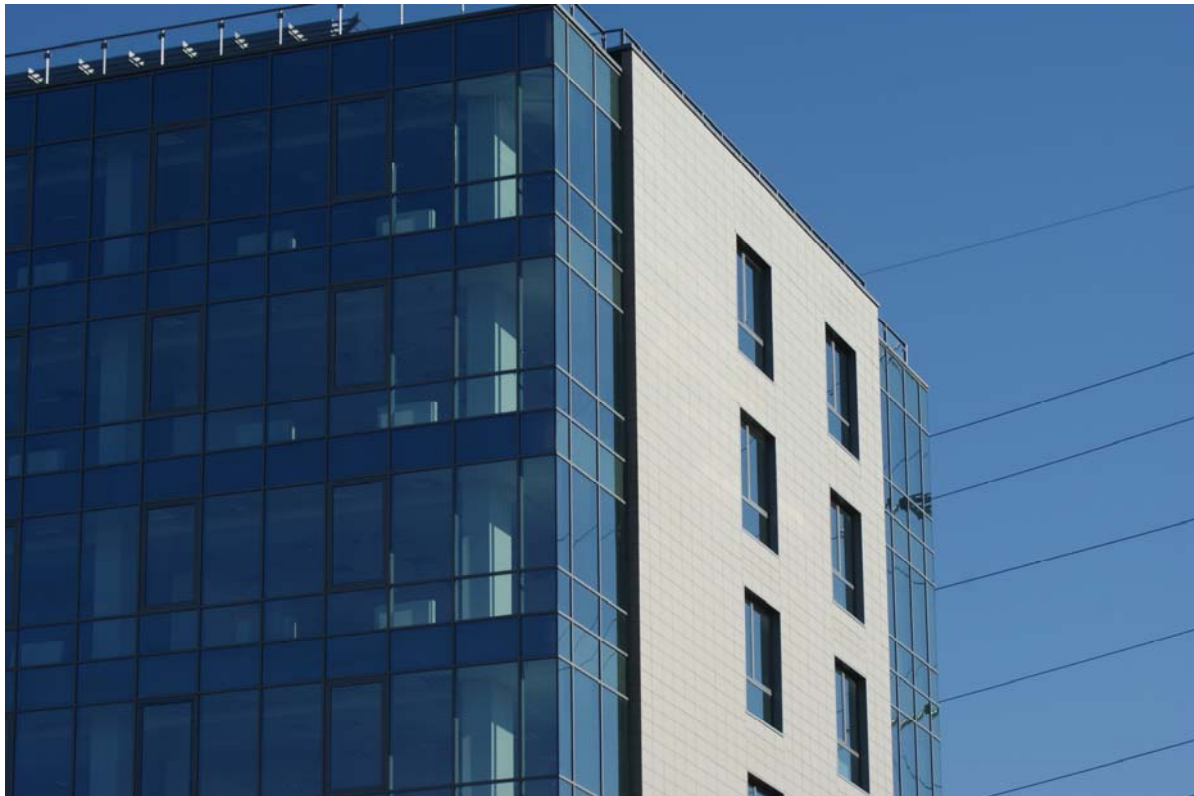


# **“Bulgarian Real Estate Fund”**

## **Second Quarter Summary Report**



24 August 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 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 (30.06.2011)	Shares Outstanding
Bulgarian Stock Exchange Sofia	5BU (BREF)	EUR 21,944,392	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

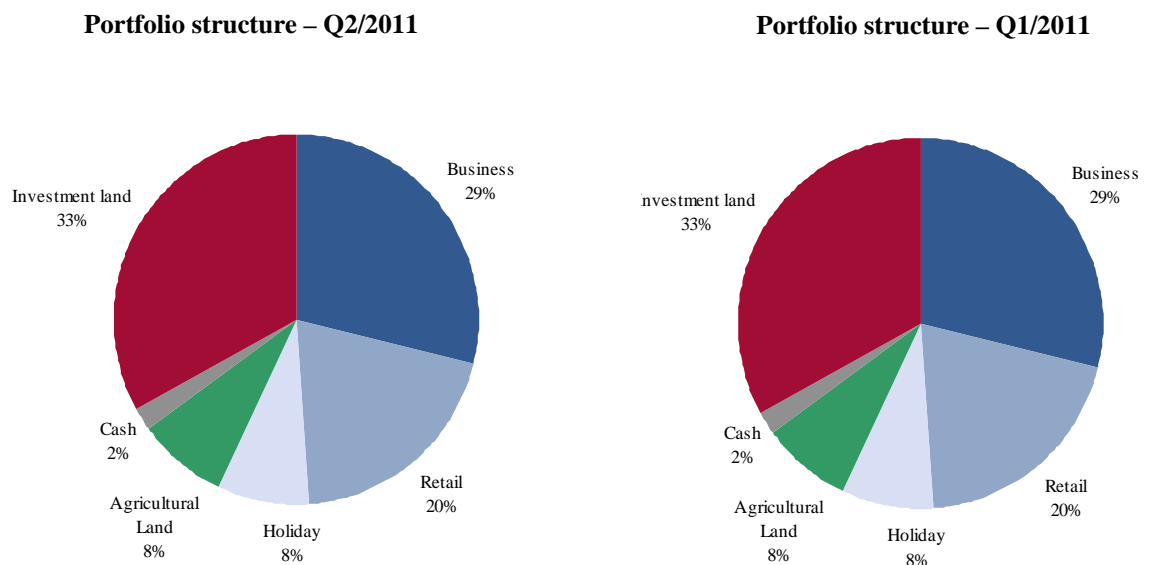
In the second quarter of 2011 the structure of BREF's portfolio remained unchanged. Investment properties account for the largest share – 33%, while business properties which include the office building Kambanite Business Center (KBC) rank second with 29% share.

The key highlights during the past quarter were as follows:

- Operational management of Kambanite Business Center;
- Carrying out improvements to the HVAC installation of KBC;
- Active marketing of the apartments and garages in apartment house Sequoia II – Borovetz;
- Activities related to the sale of agricultural land plots;
- Carrying out planned repairs of the “Mr. Bricolage” store situated in Sofia;
- Assessment of investment opportunities on the office space market.

The projects managed by BREF as of the end of June 2011 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 mainly 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 30.06.2011	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	Operational management / for sale	14,312	14,312	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>55,517</b>	<b>48,621</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 rest 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 2006, BREF concluded two “sale and leaseback” deals with the French “Do-It-Yourself” chain “Mr. Bricolage”. The two stores are situated in Varna (“Mladost” residential area) and Sofia (“Tsarigradsko shosse” Blvd).

### 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% of the acquisition cost by means of an investment bank loan from Eurobank EFG Bulgaria at the amount of EUR 7 million.

In the past quarter, there were no delays from the tenant in terms of rent payments on both stores. The Fund has made payments for all due amounts for insurance and property taxes of the two stores. During the period, BREF carried out planned repairs of the roof of the retail in Sofia and renewed part of its equipment.

### 2.3 Project – Agricultural land

In Q2 2011 the Fund performed active management regarding the sale of agricultural land. During the reported period one deal for sale of 797 dka agricultural land was started but not completed and hence the result was not included in the financial statements for the quarter. In July BREF concluded contracts for sale of additional 11,779 dka, which result will be reported in the next quarter. The total agricultural land owned by BREF as of the end of June 2011 is 23,301.86 dka (incl. the lands sold after the date of the report).

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 June 2011 the rented out agricultural properties total 19,380 dka which is 83.17% of the total owned agricultural land. The average rent price for the agricultural 2010/2011 year is BGN 21.17 per dka (or EUR 10.82 per dka).

#### Project parameters:

<b>Agricultural land</b>	
Acquired area	23,301.86 dka
Investment	EUR 3.81 M
Acquisition price per dka	EUR 163.5
Leased area	19,380 dka
% of leased area	83.17%
Average annual rent per dka	EUR 10.82

### 2.4 Project – Kambanite Business Centre

Kambanite Business Center (KBC) is an office building with total built-up area of 16,266 sq.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.

In Q1 2011 the last free premises in KBC were rented out and in Q2 2011 the building was fully occupied, Hewlett Packard being its anchor tenant with 92% of the rentable plot.

*Table 2 – Structure of the tenants of KBC as of 30<sup>th</sup> June 2011*

<b>Tenant</b>	<b>% of built-up area</b>
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	0.66%
<b>TOTAL</b>	<b>100%</b>

During the second quarter improvements to the HVAC installation were carried out and thus all the requirements of tenants were fulfilled. All maintenance activities were regularly performed and no complaints from tenants were received.

During the current year BREF will direct its efforts to find a buyer and negotiate the sale of KBC.

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

During the past quarter no apartments were sold. As of the end of June 2011 a total of seven apartments have been disposed of and a campaign for selling the rest of the apartments is in progress.

**Project parameters:**

<b>Apartment house "Sequoia 2" - Borovetz</b>	
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:**

<b>Seaside Holiday Village</b>	
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	suspended

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

Another project with good potential for future development is the acquired property in the vicinity of Vitosha Mountain, neighboring the already realized KBC project. The total size of the acquired properties is 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 like Technopolis and IKEA. 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.

In June 2011 the first stage of the rezoning procedure was completed and some of the plots were merged. As a result, their number was reduced from 8 to 5. After the rezoning procedure is completed the future development of the project will depend on the real estate market conditions.

**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 the past quarter the area of the Fund's land plots was reduced to 46,356 sq.m as a result of the ongoing rezoning procedure started by the municipality of Sofia in 2008. This change called for a revaluation of the property by a licensed estimator and the result was recorded in the Fund's income statement as a loss from fair value adjustments.

At present, BREF's investment intentions regarding the future development of the property are delayed until the approval of the new area structure plan.

**Project parameters:**

<b>Investment Plots, Sofia - Mladost IV district</b>	
Total plots' area	46,356 sq.m
Purchase price	EUR 11.75 M
Status	rezoning procedure

## 3 Financial Highlights Q2 / 2011.

### 3.1 Summarized Financial Statements

The following financial statements are based on the non-audited financial statements for the first and the second quarter of 2011.

*Table 3 – Balance sheet as of 30<sup>th</sup> June 2011 and 31<sup>st</sup> Mar 2011.*

(All amounts in EUR '000)	30.06.2011	31.03.2011
<b>ASSETS</b>		
<b>Non-current Assets</b>		
Investment property	29,777	30,894
Plant and equipment	15	17
Intangible assets	3	3
Deferred expenses	262	268
<b>Total Non-current Assets</b>	<b>30,057</b>	<b>31,182</b>
<b>Current Assets</b>		
Investment property held for sale and trade	17,124	17,011
Trade and other receivables	720	617
Cash and cash equivalents	792	849
Deferred expenses	152	132
<b>Total Current Assets</b>	<b>18,788</b>	<b>18,609</b>
<b>TOTAL ASSETS</b>	<b>48,845</b>	<b>49,791</b>
<b>EQUITY AND LIABILITIES</b>		
<b>Equity</b>		
Share capital	30,907	30,907
Share premium	5,016	5,016
Retained earnings	1,675	2,424
<b>Total equity</b>	<b>37,598</b>	<b>38,347</b>
<b>Non-current liabilities</b>		
Interest bearing loan	7,728	8,027
Derivative financial instrument	249	233
<b>Total Non-current liabilities</b>	<b>7,977</b>	<b>8,260</b>
<b>Current liabilities</b>		
Current part of non-current liabilities	1,213	1,195
VAT payable	12	60
Payables to management company	249	366
Payables to the personnel and SIC	2	3
Provisions for dividends due	1,225	1,225
Trade and Other current liabilities	569	335
<b>Total Current liabilities</b>	<b>3,270</b>	<b>3,184</b>
<b>Total liabilities</b>	<b>11,247</b>	<b>11,444</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>48,845</b>	<b>49,791</b>

*Table 4 – P&L statement for the quarters ending on 30<sup>th</sup> June 2011 and 31<sup>st</sup> Mar 2011 and accumulated since the beginning of 2011.*

(All amounts in EUR '000)	Q2 - 2011	Q1 - 2011	H1 - 2011
Income from sale of assets	1	0	1
Rental income	862	814	1,676
Revenue from interest	8	13	21
Other financial income	0	118	102
Other income	1	5	6
<b>Total Revenue</b>	<b>872</b>	<b>950</b>	<b>1,806</b>
Value of sold assets	(1)	0	(1)
Interest expense	(154)	(160)	(314)
Management fees	(144)	(142)	(286)
Materials expense	(26)	(25)	(51)
BOD and employees salaries expense	(9)	(8)	(17)
Loss from fair value adjustments	(924)	0	(924)
Loss on financial instruments	(16)	0	0
Other expenses	(346)	(139)	(485)
<b>Total expenses</b>	<b>(1,620)</b>	<b>(474)</b>	<b>(2,078)</b>
<b>Profit/(loss) for the period</b>	<b>(748)</b>	<b>476</b>	<b>(272)</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>Earnings per share - basic and diluted</b>	<b>(0.012)</b>	<b>0.008</b>	<b>(0.004)</b>

## 3.2 Liquidity

*Table 5 – Liquidity ratios as of 30<sup>th</sup> June 2011 and 31<sup>st</sup> Mar 2011.*

Liquidity Ratios	30.06.2011	31.03.2011
Current ratio	5.75	5.85
Quick ratio	0.51	0.50
Cash ratio	0.24	0.27

In the second quarter of 2011 changes were observed in current and cash liquidity ratios. The quick liquidity ratio remained almost the same as in the previous quarter at 0.51. The current liquidity ratio registered a decrease from 5.85 in the end of the first quarter of 2011 to 5.75 in the end of June 2011. The reported change we attribute to the higher percentage growth in current liabilities (2.86%) versus growth in current assets (0.96%). The cash liquidity ratio also registered a slight decline from 0.27 to 0.24 due to the reduced amount of cash and cash equivalents as a result of payments made during the quarter.

In the next quarter, the Fund expects to improve its liquidity due to realized revenues from sales of agricultural land. Negative influence on liquidity will have the payment of the dividends due for 2010 but the final result is expected to be positive.

### ■ Internal sources of liquidity

During the second quarter of 2011 BREF continued to have significant internal sources of liquidity.

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

*Table 5A – Sources of liquidity as of 30<sup>th</sup> June 2011 and 31<sup>st</sup> Mar 2011.*

Liquidity sources (thousand EUR)	30.06.2011	% share	31.03.2011	% share
<b>Current Assets</b>				
Investment property held for sale and trade	17,124	91.14%	17,011	91.41%
Trade and other receivables	720	3.83%	617	3.32%
Cash and cash equivalents	792	4.22%	849	4.56%
Deferred expenses	152	0.81%	132	0.71%
<b>Total Current Assets</b>	<b>18,788</b>	<b>100%</b>	<b>18,609</b>	<b>100%</b>

The total amount of current assets rose by 0.96% to EUR 18,788 thousand as opposed to EUR 18,609 thousand in the previous quarter. The overall structure of current assets remained approximately the same with closer values for the shares of Cash and cash equivalents and Trade and other receivables.

The “Investment property held for sale and trade” account continued to have the largest share – 91.14%. This account constitutes of the Fund’s properties held for sale, and namely: the office part of Kambanite Business Center and the apartment house “Sequoia 2” 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 completing the latest improvements to the property.

The second source of liquidity (4.22%) is the “Cash and cash equivalents” account. Its amount decreased to EUR 792 thousand due to payments made during the quarter.

The third source of liquidity (3.83%) is the “Trade and other receivables” account. This account marked a slight increase due to mounting receivables from the managing company of the Fund. Other receivables included in this account are the receivables from land rents, the receivables from property sales realized in previous reporting periods, as well as receivables from the anchor tenant of KBC regarding the reconstructions made at the tenant’s expense.

In the next quarter BREF expects the amount of the current assets to increase due to sales of agricultural land and mounting receivables from land rents, and to decrease due to payment of the dividends due for 2010 and the liabilities to construction companies which have carried out reconstructions of KBC at the tenant’s expense.

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

*Table 5B – Sources of liquidity as of 30<sup>th</sup> June 2011 and 31<sup>st</sup> Mar 2011.*

Liquidity sources (thousand EUR)	30.06.2011	% share	31.03.2011	% share
<b>Current liabilities</b>				
Current part of non-current liabilities	1,213	37.10%	1,195	37.54%
VAT payable	12	0.36%	60	1.90%
Payables to management company	249	7.62%	366	11.50%
Payables to the personnel and SIC	2	0.05%	3	0.08%
Provisions for dividends due	1,225	37.45%	1,225	38.45%
Trade and Other current liabilities	569	17.43%	335	10.54%
<b>Total Current Liabilities</b>	<b>3,270</b>	<b>100%</b>	<b>3,184</b>	<b>100%</b>

The amount of the current liabilities marked an increase of 2.68% to EUR 3,270 thousand as opposed to EUR 3,184 thousand in the previous quarter. Major contribution to the reported change had the growth in “Trade and other current liabilities” as a result of which the overall liabilities structure changed.

The most significant component (37.45%) remains 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 dividend amount was approved at the General Assembly of shareholders which was held on 13<sup>th</sup> July 2011. The gross dividend per share is BGN 0.03960360.

The next share of 37.10% in the current liabilities structure remains the account “Current part of non-current liabilities” formed by the principal and interest installments with regard to the two investment bank loans used to refinance the projects “Mr. Bricolage” and “Kambanite Business Center”. The slight uplift in this account results from the increasing amount of monthly principal payments. BREF expects this amount to increase in the next reporting periods until the loans are fully repaid.

“Trade and other current liabilities” take the place of “Payables to the management company” and rank third in the structure of current liabilities with a share of 17.43%. The reported increase in this account comes from the advances received for the started but not finalized sale of agricultural land. The result of the deal will be recorded in the income statement for the next reporting period.

The relative share of “Payables to the management company” falls from 11.5% to 7.62% due to a decline in their amount. The reported decrease results from paying off the liabilities to the construction companies hired by the management company to perform reconstructions in KBC, and the management fees accumulated in previous reporting periods.

After the payments made during the period the smallest share take the “VAT payables” followed by the “Payables to the personnel and SIC”.

In the next quarter BREF expects the current liabilities to decrease reflecting the forthcoming dividend payment and the finalization of the deal for agricultural land.

#### ■ External sources of liquidity

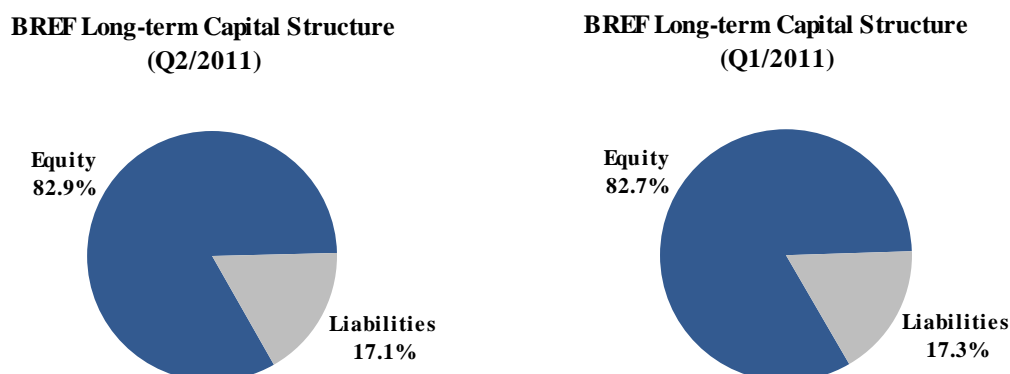
The external sources of liquidity are the equity and the two investment bank loans, which are explained in details in point 3.3 Capital resources.

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 in the following months. 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

As of the end of June 2011 the long-term capital of the Fund, equity and external financing, reported a decrease of EUR 1,048 thousand to reach EUR 45,326 thousand. The downward change was mainly caused by the reported loss for the period which effect was intensified by the paid-off principal of the two investment loans of the Fund.

Despite the reported decline, the structure of the long-term capital remained approximately the same with a slight decrease in the share of external financing to 17.1% compared to 17.3% as of the end of March 2011. The long-term capital structure is presented in the figure below.

**Figure 2: Allocation between equity and external financing**

**Table 6 – Leverage ratios**

Leverage ratios	30.06.2011	31.03.2011
Debt-to-Equity ratio	0.30	0.30
Non-Current Assets-to-Equity ratio	0.80	0.81
Long-term-Debt-to-Non-Current-Asset ratio	0.26	0.26

\*The derivative financial instrument and the current part of non-current liabilities are excluded from the calculation of the above ratios.

## ■ Equity

As of the end of June 2011 the equity of the Fund totals EUR 37,598 thousand which is a decrease of 1.95% compared to the previous quarter. We attribute the decline solely to the realized loss for the period at the amount of EUR 748 thousand. The latter is mainly due to the loss from fair value adjustments realized in consequence of rezoning procedures.

**Table 7 – Total equity as of 30<sup>th</sup> June 2011 and 31<sup>st</sup> Mar 2011.**

Equity (thousand EUR)	30.06.2011	31.03.2011
Share capital	30,907	30,907
Share premium	5,016	5,016
Retained earnings	1,675	2,424
<b>Total equity</b>	<b>37,598</b>	<b>38,347</b>

## ■ External financing

In the past quarter the Fund has paid all due installments on the investment loans utilized for the acquisition of the projects „Mr. Bricolage” and “Kampanite Business Center”. The total non-paid principal on the two loans as of 30<sup>th</sup> June 2011 is EUR 9.09 million. The maturity dates of the loans are December 2016 and October 2018 for „Mr. Bricolage” and “Kampanite Business Center” respectively. During the reporting period no new loans have been received.

## ■ Capital expenses during the next periods under review

The investment strategy of the Fund for 2011 is exclusively directed towards operational management of the undergoing cash generating projects. At present, the Fund does not intend 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 total assets as of the end of June 2011 decreased by 1.9% to EUR 48,845 thousand in comparison with the previous quarter when total assets amounted at EUR 49,791 thousand. The reported change we attribute to the reduced fair value of investment properties which resulted from the rezoning procedures in Mladost IV residential area, Sofia.

*Table 8 – Asset structure*

Asset structure (thousand EUR)	30.06.2011	% share	31.03.2011	% share
<b>Non-current assets incl.</b>	<b>30,057</b>	<b>61.54%</b>	<b>31,182</b>	<b>62.63%</b>
- total property	29,777	60.96%	30,894	62.05%
<b>Current assets incl.</b>	<b>18,788</b>	<b>38.46%</b>	<b>18,609</b>	<b>37.37%</b>
- trade and other receivables	720	1.47%	617	1.24%
- investment property held for sale and trade	17,124	35.06%	17,011	34.16%
- cash and cash equivalents	792	1.62%	849	1.70%
<b>Total assets</b>	<b>48,845</b>	<b>100%</b>	<b>49,791</b>	<b>100%</b>

The overall structure of total assets remains relatively unchanged. The share of long-term assets marks a slight decrease from 62.63% as of end-March 2011 to 61.54% as of end-June 2011 due to the above mentioned reduction in property value.

The overall structure of current assets also remains relatively unchanged as “Investment property held for sale and trade” keeps the largest share followed by “Cash and cash equivalents”. The smallest component continues to be the “Trade and other receivables” account which increased due to accumulation of receivables from land rents and receivables from the anchor tenant of KBC concerning reconstructions made at its expense.

BREF's forecasts for the current year envisage total assets to grow 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 second quarter of 2011 was mainly focussed on operational management of the KBC project and negotiations for sale of agricultural land plots.

#### ■ Revenue from operations

Total revenue during the reported period is EUR 872 thousand which is less than the revenue generated in the previous quarter due to the lack of gains from the interest swap through which the Fund exchanges floating for fixed interest rate on its “Mr. Bricolage” investment loan.

*Table 9 – Realized revenues for the quarters ending on 30<sup>th</sup> June 2011 and 31<sup>st</sup> Mar 2011 and accumulated since the beginning of 2011.*

Revenue (thousand EUR)	Q2 - 2011	% share	Q1 - 2011	% share	H1 - 2011
Income from sale of assets	1	0.12%	0	0.00%	1
Rental income	862	98.83%	814	85.69%	1,676
Revenue from interest	8	0.94%	13	1.40%	21
Other financial income	0	0.00%	118	12.37%	102
Other income	1	0.12%	5	0.54%	6
<b>Total revenue</b>	<b>872</b>	<b>100%</b>	<b>950</b>	<b>100%</b>	<b>1,806</b>

In the second quarter of 2011 the largest share 98.93% of total revenues takes the rental income which increases by 5.78% to EUR 862 thousand compared to EUR 814 thousand in the first quarter of 2011. Rental income is comprised of the realized rental revenues from the “Mr. Bricolage” stores, the let office premises in the KBC building and income from agricultural land rents. The reported increase in rental income we attribute to the newly-let office premises in KBC.

The second share (0.94%) in BREF's revenues structure is taken by the "Revenue from interest" account. Its amount decreases with respect to the previous quarter but is expected to increase slightly in the next reporting periods.

BREF's management envisages total revenue in the next quarter to be boosted by rental income due to annual indexation of some rents in KBC and by income from sale of assets.

## ■ Expenses from operations

In the past quarter the structure of expenses changed substantially mainly due to the realized loss from fair value adjustments.

*Table 10 – Realized expenses for the quarters ending on 30<sup>th</sup> June 2011 and 31<sup>st</sup> Mar 2011 and accumulated since the beginning of 2011.*

Expenses (thousand EUR)	Q2 - 2011	% share	Q1 - 2011	% share	H1 - 2011
Value of sold assets	(1)	0.03%	0	0.00%	(1)
Interest expense	(154)	9.53%	(160)	33.76%	(314)
Management fees	(144)	8.87%	(142)	29.99%	(286)
Materials expense	(26)	1.64%	(25)	5.29%	(51)
BOD and employees salaries expense	(9)	0.54%	(8)	1.62%	(17)
Loss from fair value adjustments	(924)	57.02%	0	0.00%	(924)
Loss on financial instruments	(16)	1.01%	0	0.00%	0
Other expenses	(346)	21.36%	(139)	29.34%	(485)
<b>Total expenses</b>	<b>(1,620)</b>	<b>100%</b>	<b>(474)</b>	<b>100%</b>	<b>(2,078)</b>

In the second quarter of 2011 the "Loss from fair value adjustments" accounts for the largest share (57.02%) in the structure of expenses. Change in the area structure plan in Mladost IV, Sofia, called for an extraordinary revaluation of the Fund's investment properties in the area which resulted in a loss from fair value adjustments at the amount of EUR 924 thousand.

The second component (21.36%) in the expenses structure was the "Other expenses" account. The reported uplift in this account we attribute mainly to the realized loss from reduced plot area as a result of the rezoning procedure in Mladost IV residential area as well as to the accumulated property tax expenses. Other expenses included in this account are expenses for external services, provisions for impairments etc.

The third component in the expenses structure was the "Interest expenses" account comprised of the accounted and paid-off interest on loans as well as the expenses on the interest swap used on the "Mr. Bricolage" loan. This account tends to decrease as a result of principal amortization.

In the next quarter BREF expects expenses to rise due to property sales reflected in the "Book value of assets sold" account, and to decrease due to the lack of loss from fair value adjustments.

## ■ Financial result

BREF realized a net loss of EUR 748 thousand for the second quarter of 2011 as a result of negative fair value adjustments. If the loss from revaluation of the Fund's properties in Mladost IV was neglected, BREF would report an operating profit of EUR 176 thousand for the second quarter of 2011 and EUR 652 thousand accumulated since the beginning of 2011.

*Table 11 – Financial result for the quarters ending on 30<sup>th</sup> June 2011 and 31<sup>st</sup> Mar 2011 and accumulated since the beginning of 2011.*

Financial Result (thousand EUR)	Q2 - 2011	Q1 - 2011	H1 - 2011
Revenues	872	950	1,806
Expences	(1,620)	(474)	(2,078)
<b>Net profit/loss for the period</b>	<b>(748)</b>	<b>476</b>	<b>(272)</b>



## ■ Potential risks

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.

### *Interest rate risk*

As of the end of June 2011, 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. At current, 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, the Fund believes that it 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 contrast with the excitement on stock markets in the beginning of 2011, in the second quarter of the year positive sentiments gave way to more conservative approaches and dullness hit the Bulgarian stock market. Oscillatory movements accompanied by relatively low turnovers, except for some large package deals, affected the prices of public companies and BREF did not make an exception to the general trend. On 8<sup>th</sup> April 2011 BREF's share price reached its peak for the past 52 weeks – BGN 0.81, but gradually decreased in the next few months to BGN 0.71 on 30<sup>th</sup> June 2011. The realized return since the beginning of 2011 is 35.24% while for the reported quarter its value is negative at -7.55%. BREF's shares are among the most liquid on BSE-Sofia. In March 2011 they were included in the composition of the blue-chip index SOFIX. The Fund's one-year weighted average price increased from BGN 0.505 as of end-March 2011 to BGN 0.58 per share as of end-June 2011.

Summarized trading details for the 52 week period – 1<sup>st</sup> July 2010 – 30<sup>th</sup> June 2011:

- Opening Price – BGN 0.345 (1 July 2010)
- Closing Price – BGN 0.71 (30 June 2011)
- Highest Price – BGN 0.81 (8 April 2011)
- Lowest Price – BGN 0.31 (18 August 2010)
- Total Trading Volume – 18,389,317 shares
- Turnover for the period – BGN 10,633,460 (EUR 5,436,802)
- Weighted average price – BGN 0.58
- Market Capitalisation (30.06.2011) – BGN 42,919,500 (EUR 21,944,392)

**BREF Share Price Performance  
(1.07.2010 - 30.06.2011)**

