

# **“Bulgarian Real Estate Fund”**

## **Q4/2008 Summary Report**



30 January 2009

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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 the portfolio of BREF consist 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 assets and market capitalization and holds an excellent reputation among local banks, property owners and the investment community, which is a sure sign for its experienced management and publicly approved results.

Stock Exchange	Ticker Symbol	Market Capitalization (31.12.2008)	Shares Outstanding
<b>Bulgarian Stock Exchange Sofia</b>	<b>5BU (BREF)</b>	<b>EUR 25,653,303</b>	<b>60,450,000</b>

## 2 Portfolio

BREF contains 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.

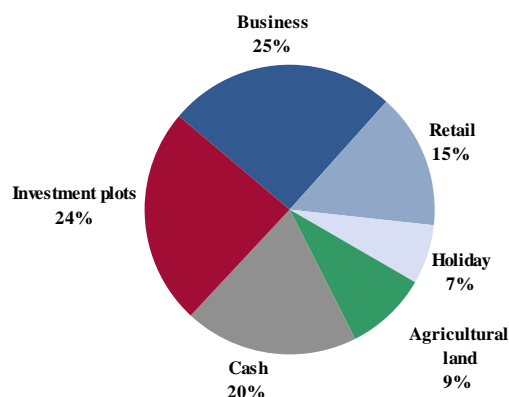
### 2.1 Portfolio Structure

The most significant among the changes in BREF's portfolio in the end of 2008 was the completed sale of Office building – G.M. Dimitrov project and the subsequent final write-off of the project from the Fund's assets. Another main change is the augmented value of the Kambanite Business Center project – office part, due the continuing construction and the investments made during the past quarter. Apart from investing in construction, BREF acquired 1,187 dka of additional agricultural land plots in Central and Northern Bulgaria. The highlights of the portfolio development during the last quarter were:

- Continuing construction of the Kambanite Business Center project – current completion progress exceeds 90%.
- Completion of the Office building – G.M. Dimitrov project ahead of the preliminary schedule and receipt of permission of use.
- Completed sale of the Office building – G.M. Dimitrov and transfer of the remaining part of the ownership – 41.03% to the buyer.

In the end of 2008 the total amount of BREF's investment projects and those currently developed was EUR 63.34 million. We attribute the increase to the realized construction expenses for the two office buildings and the investments in new properties which altogether came to an amount of EUR 2.9 million. After the sale and the subsequent write-off of the Office building – G.M. Dimitrov project from the portfolio of the Fund, the total managed projects by BREF decreased from 10 to 9 in the end of 2008.

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



The Fund's last quarter activity was directed towards realization of the already acquired projects, completion of the already mentioned disposal and investment in additional agricultural

land properties. The table below presents the projects which are segmented in accordance to their degree of completeness:

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

Project	Stage of the project	Size of project	Invested till 31.12.2008	Future payments
<b>Completed projects</b>				
"Mr. Bricolage" - sale and leaseback	Operational management	10,172	10,172	0
Agricultural land	renting out	6,263	6,237	26
<b>Projects in progress</b>				
Kambanite Business Centre	under construction/ renting out	19,429	17,170	2,259
Seaside Holiday Village	posponed	9,203	2,308	0
Apartment house "Sequoia2" - Borovetz	for sale	2,176	2,176	0
<b>Pipeline projects</b>				
Investment plots near Veliko Tarnovo*	change of regulation	261	262	n.a
Investment plots near Vidin*	change of regulation	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*	change of regulation	11,950	11,950	n.a
<b>Disposed projects</b>				
Office building - G.M. Dimitrov	sold	9,203	8,948	255
<b>Total</b>		<b>72,781</b>	<b>63,346</b>	<b>2,540</b>

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

From the above-mentioned projects two are already realized and are currently operational. Following the latest acquisitions the Fund suspended all new investments in agricultural land plots, thus shifting the project towards renting the acquired agricultural land plots. The next group of projects consists of three projects which realization spans from design to completion of the future buildings. 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 during this year. The last project Office building – G.M. Dimitrov is sold and the ownership is fully transferred to the buyer, which means that it will be excluded from BREF's portfolio for 2009.

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

Mr.Bricolage is a “sale and leaseback” project for two retail outlets of the French “Do-It-Yourself” retail chain Mr. Bricolage in Bulgaria. The stores are located in Sofia and Varna and are the two best performing assets of the retailer.

In order to optimize the project return, in 2006 BREF refinanced 70% of its value through an investment loan – EUR 7 million from Bulgarian Post Bank.

The total rent amount for both buildings is EUR 90,147, which totals up to EUR 1,081,764 fixed revenue on a yearly basis for the remaining years of the contract.

There were no overdue payments from the tenant in the current term. The Fund has made payments for all due amounts for insurance of both stores during the quarter. No damages or break-downs were registered during this period.

### **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	-

## 2.3 Project – Agricultural land

In the last quarter of 2008 BREF acquired additional plots in total size of 1.187 dka, which increased the total owned agricultural land to 40,343 dka in the end of the year.

The total amount of invested funds in the project since its start in 2005 has been EUR 6,237 thousand which equals to average price per dka including the acquisition costs of EUR 154.3. Most of the purchased properties are III and IV category, with an average size of each plot of about 10-12 dka.

Also during the last quarter the Fund rented out an additional 2,521 dka of agricultural land plots which increased the total rented land to 29,755 dka or 73.75% of the total owned land. The average rent price also increased with 13.2% to EUR 8.3 per dka. We attribute the change to the significantly higher rent prices of the newly rented out properties.

### Project parameters:

Agricultural land	
Acquired area	40,434 dka
Investment	EUR 6.24 M
Acquisition price per dka	EUR 154.3
Leased area	29,755 dka
% of leased area	73.75%
Average annual rent per dka	EUR 8.3

## 2.4 Project – Kambanite Business Centre

Kambanite Business Centre is a large-scale development project for construction of a mixed-use building, offering class ‘A’ office and retail space. Currently the finishing works are 90% completed and the building is to be operational in April 2009.

In the last quarter BREF signed a rent agreement with a company worldwide leader in the IT sector for more than 50% of the office space. The agreement term is 10 years with a renewal option for another 10 years.

The continuing construction in the building was mainly connected to customizing parts of the building so that it matches the requirements of the new tenant. The total realized construction costs until the end of 2008 were around EUR 12.14 million.

The ownership on retail part of the building is fully transferred to the new owner in the third quarter. The total sale price was EUR 11,150,000 and the total amount of the paid installments until the end of 2008 was EUR 9,835,000. The rest of the sale amount EUR 1,315,000 will be paid upon receipt of the permission of use of the office building which is expected in early April 2009.

### Project parameters:

Kambanite Business Centre	
Plot area:	8,796 sq.m
Total built-up area:	31,400 sq.m
Office space and common area	16,335 sq.m
Retail and underground parking	15,065 sq.m

## 2.5 Project – Seaside Holiday Village

Seaside Holiday Village is a project for the development of a second-home type holiday village on the southern Black Sea coast. The complex will include 291 apartments with a selection of studio, 2-bedroom and 3-bedroom luxury apartments and one-family houses, all for sale. The

wealth of the on-site facilities will include two spacious swimming pools, situated amidst professionally landscaped grounds, two restaurants, as well as retail and entertainment area.

BREF decided to freeze the project for development of the holiday village in Q3/2008 in result of the low demand of such properties stemming from the credit crunch and the oversupply of properties on the Bulgarian seacoast.

In the next periods the Fund will closely monitor the development in this segment which will determine its subsequent actions in this project.

**Project parameters:**

<b>Seaside Holiday Village</b>	
Plot area	28,758 sq.m
Total built-up area	17,963 sq.m
Total projected investment	EUR 9.2 M
Invested until December 2008	EUR 2.3 M

## **2.6 Project – Apartment house “Sequoia 2” - Borovetz**

In the end of 2007 BREF became an owner of “Sequoia 2” apartment house (with total built-up area of 3527.3 sq.m) located in the oldest ski resort in Bulgaria – Borovetz. The acquisition price of the building was EUR 2,227 thousand (EUR 631 per sq.m), including the land plot.

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 near the bottom Station of the New Gondola which is part of the SUPER BOROVIETZ project. The distance to the main road Borovetz-Plovdiv is only 30 meters.

In the last quarter BREF did not sale any apartments, which is a result of the overall reduced demand of holiday properties in Bulgaria. Despite this fact, with the winter setting in along with the advertising campaign undertaken by the Fund, the number of requests about the property increased, which is expected to reflect the sales in the future.

**Project parameters:**

<b>Apartment house "Sequoia 2" - Borovets</b>	
Plot area	512 sq.m
Total built-up area	3,527 sq.m
Acquisition price per sq.m.	EUR 631 per sq.m.
Invested until December 2007	EUR 2.227 M

## **2.7 Project – Investment plots near Veliko Turnovo**

After the acquisition of 203-decare, non-regulated land plots in 2006, BREF started a procedure of changing the land status.

The properties are located near the town of Veliko Turnovo that is in the central part of northern Bulgaria. The District is a region with leading role as an industrial, transport-logistical, tourist, cultural and educational centre. The property is well-situated to take advantage of the strong growth prospects in the region.

The procedure of changing the land status was completed and the Fund expects to receive the official documents in short terms, after which will initiate the preliminary researches and feasibility studies of the future development possibilities.

**Project parameters:**

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

## **2.8 Project – Investment plots near Vidin**

BREF is an owner of a 86-decare non-regulated land plot, located near the city of Vidin. The city is an important transportation centre in north-western Bulgaria and is bounded by the state borders - Danube River and Romania to the north and by Serbia state border to the west. The project has excellent perspectives for developing industrial and warehouse areas.

No activity has been reported during the last quarter as the regulation renewal paperwork lies ahead to be submitted to the local municipality. After the procedure is completed the Fund plans to start the preliminary design of the future warehouse areas.

**Project parameters:**

<b>Investment Plots near Vidin</b>	
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**

BREF is an owner of 8 properties with a total size of 18,052 sq.m. located in the region of Malinova Dolina, next to Sofia Ring road. The plots are located right behind another BREF's development – Kambanite Business Centre.

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 land plots very suitable for development of administrative and residential buildings offering high business and living standards.

The first stage of the rezoning procedure was completed and the second one commenced. After the full regulation process is finalized the Fund will start the preliminary design of the future residential and administrative buildings.

**Project parameters:**

<b>Investment Plots near KBC project</b>	
Total plots' area	18,052 sq.m
Purchase price	EUR 3.6 M
Status	rezoning procedure

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

In 2007 BREF acquired 21 properties with a total area of 79,253 sq.m., located in Mladost IV residential area, Sofia, situated next to Business Park Sofia. The total acquisition price including the acquisition cost was EUR 20,003,272.26, (EUR 252.39 per sq.m.)

In the third quarter after BREF completed the sale of the 9 of the land plots, the Fund remained in a possession of 12 land plots with a total size of 47,345 sq.m. In the last quarter the Fund started the regulation renewal procedure for all the remaining properties. The properties are envisaged for development of residential, administrative and hotel buildings.



**Project parameters:**

<b>Investment Plots, Sofia - Mladost IV district</b>	
Total plots' area	47,345 sq.m
Purchase price	EUR 11.95 M
Status	rezoning procedure

**2.11 Project – Office Building - G.M. Dimitrov - SOLD**

G.M.Dimitrov office building is a development project of a modern class 'A' office building that will have two underground and ten aboveground floors. The project is located relatively close to the city centre, between two main boulevards, providing quick access to Sofia downtown and Sofia International Airport. The site also enjoys great access to the public transportation.

The construction of the office building was completed one month ahead of schedule of the preliminary planned term and the office building was officially granted with a permission of use. The total construction costs of the building until the end 2008 added up to EUR 5.76 million.

The total estimated value of the office building is EUR 9,203 thousand, from which EUR 255 thousand remain to be paid ahead in 2009. After the receipt of the permission of use in November 2008, in December the sale of the remaining part of the building was completed.

**Project parameters:**

<b>Office Building - G.M.Dimitrov</b>	
Plot area	1,528 sq.m
Total built-up area	13,487 sq.m
Office space	9,876 sq.m
Retail space	640 sq.m

## 3 Financial Highlights Q4 / 2008.

### 3.1 Summarized Financial Statements

The following financial statements are created in full compliance with the Financial Supervision Commission standards and resemble the audited 2007 annual financial statements.

*Table 2 – Balance sheet until 31<sup>st</sup> December 2008 and 30 September 2008*

(All amounts in EUR '000)	31.12.2008	30.09.2008
<b>ASSETS</b>		
<b>Non-current Assets</b>		
Investment and development property	38,782	40,881
Property acquisition costs	674	352
Machinery and equipment	1	2
Intangible assets	1	1
Derivative financial instrument	-	109
Furniture and fixtures	14	14
<b>Total Non-current Assets</b>	<b>39,472</b>	<b>41,359</b>
<b>Current Assets</b>		
Accounts receivable	2,746	1,914
Prepayments	78	243
Other current assets	505	61
Investment property held for sale	14,954	15,827
Cash and cash equivalents	13,154	12,167
Deferred expenses	34	64
<b>Total Current Assets</b>	<b>31,471</b>	<b>30,276</b>
<b>TOTAL ASSETS</b>	<b>70,943</b>	<b>71,635</b>
<b>EQUITY AND LIABILITIES</b>		
<b>Equity</b>		
Share capital	30,908	30,908
Share premium	5,016	5,016
Retained earnings	8,218	23,704
<b>Total equity</b>	<b>44,142</b>	<b>59,628</b>
<b>Non-current liabilities</b>		
Interest bearing loan	5,706	5,897
Derivative financial instrument	234	-
<b>Total Non-current liabilities</b>	<b>5,940</b>	<b>5,897</b>
<b>Current liabilities</b>		
Current debt and accrued interest	15	17
Current part of non-current liabilities	651	642
Payables to management company	1,547	2,622
Accounts payable	1,209	1,200
Property sale prepayments received	15	3
Taxes payable	875	1,609
Provisions	15,485	12
Other liabilities	1,064	5
<b>Total Current liabilities</b>	<b>20,861</b>	<b>6,110</b>
<b>Total liabilities</b>	<b>26,801</b>	<b>12,008</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>70,943</b>	<b>71,635</b>

*Table 3 – P&L statement for Q4/2008 and Q3/2008*

<b>(All amounts in EUR '000)</b>	<b>Q4 - 2008</b>	<b>Q3 - 2008</b>
Income from sale of assets	7,181	35,383
Rental income	350	317
Income from financial instruments	19	-
Revenue from interest and other financial revenues	118	204
Net gains from fair value adjustments	0	368
Other Income	39	99
<b>Total Revenue</b>	<b>7,707</b>	<b>36,371</b>
Interest expense	(97)	(316)
Materials and external services expense	(596)	(4,349)
BOD and employees salaries expense	(11)	(12)
Loss on financial instruments	(422)	(118)
Value of sold assets	(4,226)	(27,478)
Net loss from from value adjustments	(2,309)	
Depreciation expense	(2)	(1)
Other expenses	(76)	(359)
<b>Total expenses</b>	<b>(7,739)</b>	<b>(32,633)</b>
<b>Profit/(loss) for the period</b>	<b>(32)</b>	<b>3,739</b>
<b>Weighted average number of shares in the quarter (in thousands)</b>	<b>60,450</b>	<b>60,450</b>
<b>Earnings per share - basic and diluted</b>	<b>(0.001)</b>	<b>0.062</b>

### 3.2 Liquidity

In the fourth quarter of 2008 the current liquidity of BREF reported a downfall as a result of the larger increase of current liabilities as compared to the modest increase of current assets. We attribute the increase of the current liabilities mainly to the newly reported provisions for distribution of dividend for 2008 in amount of EUR 15,454 thousand. Current assets also increased, although in a slower rate, which came from the received payment of the completed sale of the project Office part – G.M. Dimitrov during the past quarter.

Quick and cash ratios also fell for the last quarter of 2008. However the reported fall was smaller than the one in the current liquidity ratio, which we attribute to the increased cash and cash equivalents in result of the completed sale during the period. Despite the fact that the overall liquidity might seem to have decreased, cash and cash equivalents increased 8% in the fourth quarter of 2008 and represented almost 42% of the total current assets, which pre-determines the stability of the Fund in the future.

The Fund expects the liquidity in the next quarter to decrease in result of the investments in the remaining construction of the KBC project, and this decrease to be offset by the future payments under the preliminary agreements for sale signed by BREF in 2008.

**Table 4 – Liquidity ratios until 31<sup>st</sup> December 2008.**

Liquidity Ratios	31.12.2008	30.09.2008
Current ratio	1.51	4.95
Quick ratio	0.79	2.36
Cash ratio	0.63	1.99

#### ■ Internal sources of liquidity

BREF continued to have significant internal sources of liquidity at its disposal in the fourth quarter of 2008.

##### ○ Short-term (current) assets

**Table 5A – Sources of liquidity until 31<sup>st</sup> December 2008.**

Liquidity sources	31.12.2008	30.09.2008
<b>Current Assets</b>		
Accounts receivable from clients and	2,746	1,914
Prepayments	78	243
Other current assets	505	61
Investment property held for sale	14,954	15,827
Cash and cash equivalents	13,154	12,167
Deferred expenses	34	64
<b>Total Current Assets</b>	<b>31,471</b>	<b>30,276</b>

Investment property held for sale again represented the largest share (47.5%) of the current assets in the end of 2008. This account comprised of the balance sheet values of the properties set by the Fund for sale, namely Kambanite Business Center – office part and Apartment house “Sequoia2” – Borovetz.

Cash and cash equivalents were the other main source of liquidity, as this account took up 41.2% of BREF’s current assets. During the past quarter cash and cash equivalents rose 8% in result of the realized sale of the remaining part of Office building – G.M. Dimitrov project.

The other significant account in the current asset structure was the accounts receivable from clients which reported uplift in comparison with the third quarter. This change was mainly attributed by prepayments for construction works of the Office building – G.M. Dimitrov project in the amount of EUR 800 thousand. In addition this component included the final

installment of EUR 1,315 thousand under the preliminary agreement for sale of the retail part of KBC project; agricultural land rent receivable, and accrued interest on the deposits of the Fund.

Other receivables account was made up mainly of the final installment under the preliminary agreement for sale of Office building – G.M. Dimitrov project in the amount of EUR 500 thousand

The last component of the current assets was the prepayments which constituted of the transfer of advances to servicing companies for purchases of agricultural land properties during the period.

The management of BREF expects the amount of the current assets to increase in the future in result of the sale payments and to decrease in parallel with the completion of the construction works of the Kambanite Business Center project.

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

**Table 5B** – Sources of liquidity until 31<sup>st</sup> December 2008.

<b>Liquidity sources</b>	<b>31.12.2008</b>	<b>30.09.2008</b>
<b>Current liabilities</b>		
Current debt and accrued interest	15	17
Current part of non-current liabilities	651	642
Payables to management company	1,547	2,622
Accounts payable	1,209	1,200
Property sale prepayments received	15	3
Taxes payable	875	1,609
Provisions	15,485	12
Other liabilities	1,064	5
<b>TOTAL CURRENT LIABILITIES</b>	<b>20,861</b>	<b>6,110</b>

The main share (74.2%) of the current liabilities in the fourth quarter was taken by Provisions which represent the provisions for distribution of dividend for 2008 in the amount of EUR 15,454 thousand and the rest EUR 31 thousand being agricultural land rent provisions.

Payables to the management company which amounted to EUR 1,547 thousand also took large share in the current liabilities structure in the end of 2008. This account was formed by BREF's due amounts to real estate agencies in relation to the sold property, amounts related to the completion of the construction of the office buildings and the success fee due to the management company for the realized disposal.

Accounts payable were relatively constant to the value reported in the last quarter and amounted to EUR 1,209 thousand. The amount was mostly formed by BREF's liability on the terminated preliminary sale agreement for the office part of the KBC project with the rest being liabilities to construction companies.

The other main account in the structure of the current liabilities represented the taxes payable, made up of the VAT received on the realized sales – EUR 875 thousand.

In the end of 2008 the due part of the “Current part of non-current liabilities” reports a slight increase to EUR 651 thousand and represents the principle payments on the “Mr. Bricolage” investment loan which have to be paid in the next 12 months.

■ **External sources of liquidity**

The external sources of liquidity are the common stock and investment bank loan, which are explained in details in point 3.3 of the Capital resources.

Considering the significant amount of available funds in the end of 2008 and the expected sale receivables on the projects bound with preliminary agreements for sale, BREF has significant financial resources at its disposal, which are expected to fully cover the liquidity needs for the

next quarter. In case the investment plans of the Fund change in result of the initiation of new projects, the management has full readiness to obtain the necessary financing through external financing from local and foreign bank institutions.

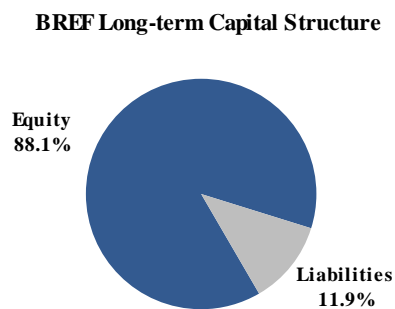
### 3.3 Capital resources

The long-term capital in the end of 2008 fell 23.6% or EUR 15,443 thousand to EUR 50,082 thousand in comparison to the third quarter. We attribute the drop to the decrease of the retained earnings with the provisions for dividend EUR 15,454 thousand which lie ahead to be distributed in 2009. These provisions were also the reason for the considerable increase of the debt-to-equity ratio, shown below.

The long-term capital structure did not go thorough changes during the past quarter, as the reported slight increase in the long-term liabilities from 9% share to 11.9% share resulted from the negative revaluation of the swap instrument of the Fund. The change in the long-term capital structure is shown by the leverage ratios in the table below.

Following the current market conditions, such long-term capital structure pre-determines the stability of the Fund and facilitates the utilization of additional external financing. The allocation between equity and long-term liabilities is shown in the figure 2 below.

*Figure 2: Allocation between equity and external financing*



*Table 6 – Leverage ratios*

Leverage ratios	31.12.2008	30.09.2008
Debt-to-Equity	0.61	0.20
Non-Current Assets-to-Equity ratio	0.89	0.69
Long-term-Debt-to-Non-Current-Asset ratio	0.15	0.14

#### ■ Equity

The equity of the Fund decreased 26% or EUR 15,486 thousand in the fourth quarter to EUR 44,142 thousand. Again we attribute this to the allocated provisions for distribution of dividend in amount of EUR 15,454 thousand and to the reported loss of EUR 32 thousand for the fourth quarter of 2008.

*Table 7 – Total Equity until December 2008 and September 2008.*

Equity (in thousands)	31.12.2008	30.09.2008
Share capital	30,908	30,908
Share premium	5,016	5,016
Retained earnings	8,218	23,704
<b>Total equity</b>	<b>44,142</b>	<b>59,628</b>

■ **External financing**

- BREF did not acquire any new loans in the past quarter, as in the period it made principal payments on the loan utilized for the acquisition of “Mr. Bricolage” project.

■ **Capital expenses during the next periods under review**

The investment strategy of the Fund is entirely directed towards realization of the current projects in the short-term, so part of the funds are to be invested in the completing the construction of KBC project. According to our projections the expenses of this project until its completion will be around EUR 2.5 million. The Fund plans utilizing its current capital resources and if there is a necessity to use loan financing.

### 3.4 Assets structure

The total assets of BREF decreased by EUR 692 thousand (-1%) to EUR 70,943 thousand in the fourth quarter of 2008. We attribute the fall of total assets mainly to the decreased value of the non-current assets.

*Table 8 – Asset structure*

Asset structure (thousand EUR)	31.12.2008	% share	30.09.2008	% share
<b>Non-current assets incl.</b>	<b>39,472</b>	<b>56%</b>	<b>41,359</b>	<b>58%</b>
- real estate properties	39,456	56%	41,233	58%
<b>Current assets incl.</b>	<b>31,471</b>	<b>44%</b>	<b>30,276</b>	<b>42%</b>
- accounts receivable	2,746	3.9%	1,914	2.7%
- investment property held for sale	14,954	21%	15,827	22%
- cash and cash equivalents	13,154	19%	12,167	17%
<b>TOTAL ASSETS</b>	<b>70,943</b>	<b>100%</b>	<b>71,635</b>	<b>100%</b>

The decrease by 4.3% or EUR 1,777 thousand of the real estate properties was the main reason for the change in the non-current assets structure. This decrease resulted from the reported negative revaluations on the properties in the end of 2008 which reflected the real estate market in Bulgaria.

Other significant change in the asset structure was the uplift in cash and cash equivalents up to EUR 13,153 thousand or an increase of 8% for the fourth quarter. The increase of this account was a result of the realized sale of project Office building – G.M. Dimitrov during the quarter.

Investment property held for sale also reported a fall due to the write-off from the balance sheet of the project Office building – G.M. Dimitrov.

The forecast for the next period is the amount and subsequently the share of the current assets to increase as a result of realized new sales and to decrease with investments in the completion of the construction of KBC project.

### 3.5 Financial Results

BREF’s main activity in the fourth quarter was mainly directed towards completing the signed preliminary agreement for sale of project Office building – G.M. Dimitrov, completing the construction in the two office buildings in Sofia, investments in agricultural land as well as management of the operational projects.

■ **Revenue from operations**

During the period under review the total reported revenues registered a 4-times decrease and amounted to EUR 7,707 thousand.

**Table 9 – Revenues for the 4<sup>th</sup> and 3<sup>rd</sup> quarter of 2008**

BREF Revenue (in thousand EUR)	Q4 - 2008	Q3 - 2008
Revenue from interest and other financial	118	204
Rental revenue	350	317
Income from sale of assets	7,181	35,383
Income from financial instruments	19	-
Net gains from fair value adjustments	0	368
Other Income	39	99
<b>Total revenue</b>	<b>7,707</b>	<b>36,371</b>

The reported revenues during the fourth quarter of 2008 marked significant decrease compared with the revenues from the previous quarter, which was mainly due to the larger amount of reported income from sale of assets in the third quarter. During the quarter under review, the income from sale of assets comprised the sale of the remaining part of Office building – G.M. Dimitrov project amounted to EUR 7,181 thousand.

The next account in the revenues structure was the rental revenues which included the rent of both “Mr.Bricolage” stores and the agricultural land rent payments. The value of these revenues incremented in result of the higher rent value of the newly rented out agricultural land plots during the quarter.

Another part of BREF’s revenues represented the income from interest which marked a fall of 43% in comparison with the reported amount in the previous quarter. Despite the higher value of cash and cash equivalents in the balance sheet at the end of 2008, we attribute the fall to the lower average amount of available cash and cash equivalents throughout the quarter, which were lower than the ones available throughout the third quarter.

BREF expects the revenues in the next periods to depend on the realized sales of new properties of the Fund and received income from rented properties and interest.

#### ■ Expenses from operations

Fund’s expenses decreased 4-times and reach EUR 7,738 thousand. We attribute the decrease in the expenses to the lesser value of the sold assets during the fourth quarter in comparison with the previous reporting period.

**Table 10 – Realized expenses for the 4<sup>th</sup> and 3<sup>rd</sup> quarter of 2008**

BREF Expenses (in thousand EUR)	Q4 - 2008	Q3 - 2008
Interest expense	(97)	(316)
Materials and external services expense	(596)	(4,349)
BOD and employees salaries expense	(11)	(12)
Value of sold assets	(4,226)	(27,478)
Net loss from from value adjustments	(2,309)	
Depreciation expense	(2)	(1)
Loss on financial instruments	(422)	(118)
Other expenses	(76)	(359)
<b>Total expenses</b>	<b>(7,739)</b>	<b>(32,633)</b>

A main stake in the expenses structure in the quarter under review took the balance sheet value of the sold project – Office building – G.M. Dimitrov in amount of EUR 4,226 thousand.

The next significant part of the expenses structure (30%) took the net loss from fair value adjustments in amount of EUR 2,309 thousand. The incurred losses came from the performed revaluations of the properties owned by the Fund, which reflect the changes in the real estate sector.



“Materials and external services expense” also represent a significant share of the expenses, and comprised of the success fee of the management company for the realized sales, the brokerage fee of the real estate agents for the sale of Office building – G.M. Dimitrov project, local taxes and fees tied to the latter and the regular servicing fees due to the management company

The loss on financial instruments represented the reported negative net present value (NPV) of the interest swap associated with the investment loan utilized for financing “Mr. Bricolage” project, as the reason for the negative was the significant drop of EURIBOR in the end of 2008.

The next component of BREF expenses structure took the interest expenses in the amount of EUR 97 thousand. The expenses report a fall in comparison with the previous quarter, which was a direct effect of the paid-off debt in the third quarter that resulted in a sharp decrease of the long-term liabilities of the Fund.

The “Other expenses” rose to EUR 76 thousand due the local taxes and fees tied to acquisitions/disposals of properties and local taxes and fees accounted on the properties owned by BREF.

The expected expenses for the next periods will depend on the realized sales of new projects by the Fund.

### ■ Financial result

BREF realized a net loss of EUR 32 thousand for the last quarter of 2008. We attribute the net loss mainly to the net loss from fair value adjustments on the investment properties owned by the Fund as well as to the loss on financial instruments.

Should net loss from fair value adjustments be disregarded the Fund would have realized a net profit of EUR 2,699 thousand due to the realized income on the sale of project Office building – G.M. Dimitrov.

BREF expects the financial result for the next reporting periods to depend greatly on the sale of assets and on the reported expenses connected to the investments of the Fund.

**Table 11** – Financial result for the 4<sup>th</sup> and 3<sup>rd</sup> quarter of 2008

Financial Result	Q4 - 2008
Revenues	7,707
Expences	(7,739)
<b>Net loss for the period</b>	<b>(32)</b>

### ■ Financial results per share

The NAV per share shrank from EUR 0.98 to EUR 0.73 or -26% for the last quarter of 2008. We attribute this change to the provision for distribution of dividend which was subtracted from the retained earnings of the Fund, which subsequently decreased the overall NAV. The provision for dividend which lies ahead to be distributed was EUR 15,454 thousand which exact amount is to be determined after the release of the audited financial report in the end of March 2009.

**Table 12** – Financial results per share 4<sup>th</sup> and 3<sup>rd</sup> quarter of 2008

Results per share (EUR)	Q4 - 2008	Q3 - 2008
Earnings ( '000 )	(32)	3,739
Earnings per share	(0.001)	0.062
NAV ( '000 )	44,142	59,627
NAV per share	0.730	0.986
NAV per share increase	-26.0%	6.7%

**■ Potential risks in the next quarter**

The change in the current period is mainly in the direction of increasing the risk from a further decline in the real estate market and the worsened economical environment in the capital markets.

The principal risks which affect the main activity of BREF are thoroughly discussed in the 2007 Annual Report. Some of the more current risks that might be outlined are delays in payments from land lease lords and suppliers which will accelerate accounts receivable build up and negatively affect the liquidity of the Fund. Another construction related risk is a delay in the construction progress of the Kambanite Business Centre, which will directly influence the installment payments which are to be received from the clients on a schedule tied to the construction stages. Having adequately pointed those potential risks, BREF's management has taken certain measures to completely minimize each one of them. In connection to accounts receivable build-up, The Fund conducts a strict collection policy which remains successful so far. In regards to ensuring the timely and quality construction work of Kambanite Business Center, the management company has already restrained certain amounts payable to the companies executing the construction.

## 4 Share performance

The world financial crisis continued to affect the capital markets which plunged further down. Despite the undertaken measures to inject liquidity by the US and the EU institutions, none of the measures really had permanent affect on the indices on the world stock exchanges. The indices on the Bulgarian Stock Exchange continued to follow the downward trend, registering losses between 41% and 55% from their value in the third quarter. The BGREIT index, a part of which is BREF, registered the lowest fall among the Bulgarian indices – 41%. In comparison to it for the same period BREF shares reported a fall of only 24.5%.

The weighted average price for the last 12 months went down from BGN 1.75 in the end of September 2008 to BGN 1.26 in the end of December 2008.

Summarized trading details for the period 31<sup>st</sup> December 2007 – 31<sup>st</sup> December 2008:

- Opening Price – BGN 2.13 (3 January 2007)
- Closing Price – BGN 0.83 (23 December 2008)
- Highest Price – BGN 2.13 (3 January 2007)
- Lowest Price – BGN 0.62 (20 November 2008)
- Total Trading Volume – 10,281,671 shares
- Turnover for the period – EUR 6,643,951
- Weighted average price – BGN 1.26
- Market Capitalisation (31.12.2008) – EUR 25,653,303

*Figure 3 – Financial results per share*

