“Bulgarian Real Estate Fund”

Summary
Annual Report 2012

27 March 2013

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 8 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 (31.12.2012)	Shares Outstanding
Bulgarian Stock Exchange Sofia	**5BU (BREF)**	**EUR 16,071,949**	**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.

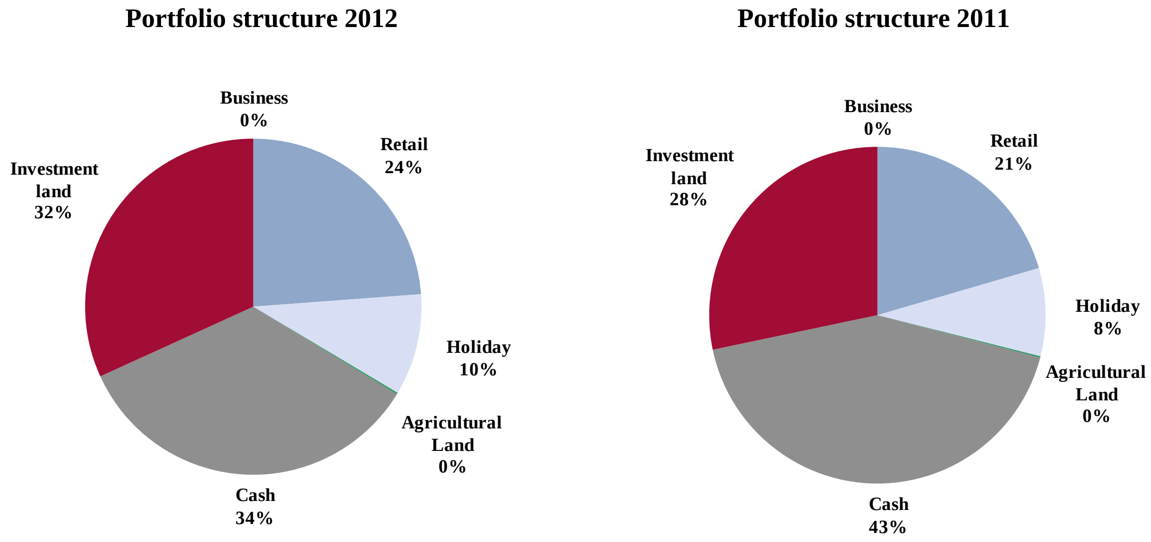
2.1 Portfolio Structure

In the past year the main changes in the structure of BREF's portfolio resulted from paying the dividends for 2011, which amounted to EUR 6,581 thousand. As a result the share of cash and cash equivalents has decreased, however it remains the largest with 34%. The second with 32% share are the investment properties, followed from the retail properties with 24%. The key highlights during the past year were as follows:

- Carrying out planned repairs of the "Mr. Bricolage" stores situated in Sofia and Varna;
- Prolonging the terms of the lease agreements for Mr.Bricolage stores;
- Collecting rental receivables from agricultural land for 2011 and for 2012;
- Regulating land plots in Sofia – Ring road;
- Active marketing of the apartments and garages in apartment house Sequoia II – Borovetz;
- Assessment of investment opportunities on the office and residential markets in Sofia;
- Looking for new investment projects of BREF.

The projects managed by BREF as of the end of December 2012 were eight, 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 mainly directed towards managing three out of the eight projects. The table below presents the projects segmented in accordance to their degree of completion:

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

Project	Stage of the project	Size of project	Invested till 31.12.2012	Future investments
Current projects				
"Mr. Bricolage" - sale and leaseback	Operational management	10,259	10,259	0
Agricultural land	Operational management	66	66	0
Apartment house "Sequoia2" - Borovetz	for sale	1,891	1,891	0
Pipeline projects				
Seaside Holiday Village	suspended	9,203	2,308	0
Investment plots near Veliko Tarnovo*	suspended	262	262	n.a
Investment plots near Vidin*	suspended	301	301	n.a
Invetstment plots in Sofia - Ring road*	change of regulation	2,465	2,465	n.a
Invetstment plots in Sofia - Mladost IV*	suspended	10,664	10,664	n.a
Total		35,111	28,216	0

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

From the above-mentioned projects "Mr. Bricolage" – sale and leaseback and Agricultural land are currently operational, whereas apartment house "Sequoia II" is set for sale. The next group consists of projects in the pipeline or suspended and currently there is no progress in their development. Such projects are Seasde Holiday Village in Lozenetz, Investments plots near Veliko Tarnovo and Vidin, and in Sofia on the Ring road and in Mladost IV district.

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 in Sofia ("Tsarigradsko shosse" Blvd).

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. The non-paid principal on the loan as of 31st December 2012 is EUR 3.55 million.

After the negotiations held in the third quarter, in October BREF and Dverie-Brico signed annex for prolonging the current terms of the rent agreements. The new terms of both rent agreements for the stores in Sofia and Varna were prolonged until December 2021. From July 2013 a rent indexation is introduced. The indexation index will be HICP 27 countries for the previous year, published by EUROSTAT. The rent for the additional five year term will be reduced with 10% compared with the last indexed rent for 2016. Since 2013 the tenant Doverie-Brico AD will undertake the waste disposal and pay the annual garbage fees.

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	-
Indexation	HICP 27 countries	HICP 27 countries	HICP 27 countries
Expiry date of rent agreement	December 31st, 2021	December 31st, 2021	December 31st, 2021

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

The total monthly rent for both stores until June 2013 will remain EUR 90,147, after which the monthly rent will be increased with the inflation index HICP 27 countries, published by EUROSTAT for 2012.

In 2012, 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.

In August due to the heavy rains the entrance roof of Sofia store was damaged and in September it was repaired. The damage were covered by the insurance policy of the store. In addition, in the second half of the year, were performed planned repairs of the roof and of some of the installations on both stores in Varna and in Sofia, which repair were completed in the beginning of 2013. According to the clauses of the signed in October annexes the expenses for capital repairs and for replacement of amortized technical installations of the stores up to fixed amount will be taken equally by the tenant and the Fund. According to the original agreement these expenses were entirely on BREF's account. Furthermore in the last quarter a new maintenance plan was started, which is expected to prolong the life of the facilities.

2.3 Project – Agricultural land

The total agricultural land owned by BREF as of the end of December 2012 is 455 dka, of which 323 dka are subject of litigation.

The Fund's last year activity was mainly directed towards collecting the rental receivables for the agricultural 2010/2011 and 2011/2012 years. As a result as of December 2012 were collected 81.1% from the receivables for 2010/2011 and 92% from the receivables for 2011/2012.

Project parameters:

Agricultural land	
Total owned lands	455 dka
Investment	EUR 66,000
Acquisition price per dka	EUR 145

2.4 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.

Because of the difficult times on the vocation properties market and the weak interest from potential buyers no apartments were sold during the year. As of the end of December 2012 a total of seven apartments have been disposed of and a campaign for selling the rest of the apartments is in progress.

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

2.5 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.

Project parameters:

Seaside Holiday Village	
Plot area	28,758 sq.m
Project built-up area	17,963 sq.m
Invested until 2012	EUR 2.3 M

2.6 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 park, where large retail chains may establish franchise units.

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 Veliko Turnovo	
Total plots' area	203,248 sq.m
Purchase price	EUR 0.26 M
Status	suspended

2.7 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	suspended

2.8 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 proprieties was 18,052 sq.m. After the sale, together with Kambanite Business Centre, of some of the plots in 2011 BREF remained owner of 11,081 sq.m.

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

In 2013, BREF expects the regulation procedure to be completed. The new regulation is approved by the Metropolitan Expert Counsel and remains the final approval by Sofia Municipality Counsel, after which the second final public announcement of the new regulation will be executed.

Project parameters:

Investment Plots in Sofia - Ring Road	
Total plots' area	11,081 sq.m
Purchase price	EUR 2.47 M
Status	rezoning procedure

2.9 Project – Investment plots in Sofia - Mladost IV

BREF is owner of 17 land plot situated on Sofia's Ring Road in its crossing point with "Alexander Malinov" Blvd., to the west of Business Park Sofia. After some sales during the past years as of the end of December 2012 the total area of the owned land plots is 42,190 sq.m.

In 2008 Sofia Municipality has started new rezoning procedure of the whole district, which has postponed the investment intentions of BREF until the procedure is over. Currently the new structural plan is announced for second final time, but due to objection raised by one of the current owners the procedure is stopped until this objection is rejected.

Project parameters:

Investment Plots, Sofia - Mladost IV district	
Total plots' area	42,190 sq.m
Purchase price	EUR 10.66 M
Status	suspended

3 Financial Highlights 2012.

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 2012 and 2011.

***Table 3** – Balance sheet as of 31st Dec 2012 and 31st Dec 2011.*

(All amounts in EUR '000)	31.12.2012	31.12.2011
ASSETS		
Non-current Assets		
Investment property	25,372	25,328
Plant and equipment	3	9
Total Non-current Assets	**25,375**	**25,337**
Current Assets		
Investment property held for sale	1,223	1,373
Trade and other receivables	525	1,355
Cash and cash equivalents	14,851	21,169
Deferred expenses	5	5
Total Current Aseets	**16,604**	**23,902**
TOTAL ASSETS	**41,979**	**49,239**
EQUITY AND LIABILITIES		
Equity		
Share capital	30,907	30,907
Share premium	5,016	5,016
Retained earnings	1,083	1,124
Total equity	**37,006**	**37,047**
Non-current liabilities		
Interest bearing loan	2,721	3,530
Derivative financial instrument	290	342
Total Non-current liabilities	**3,011**	**3,872**
Current liabilities		
Current part of non-current liabilities	823	782
Provisions for dividends due	920	6,581
Trade and other current liabilities	219	957
Total Current liabilities	**1,962**	**8,320**
Total liabilities	**4,973**	**12,192**
TOTAL EQUITY AND LIABILITIES	**41,979**	**49,239**

Table 4 *– P&L statement for the years ending on 31st Dec 2012 and on 31st Dec 2011.*

(All amounts in EUR '000)	2012	2011
Income from sale of assets	0	28,001
Rental income	1,090	2,647
Interest income	1,071	242
Gain on derivative financial instrument	52	9
Other Income	195	58
Total Revenue	**2,408**	**30,957**
Value of sold assets	0	(20,287)
Interest expense	(234)	(566)
Management and success fees	(564)	(2,026)
Direct operating expenses arising from properties	(197)	(354)
Agency fees and local taxes related to sale of properties	0	(539)
BOD remunerations	(40)	(25)
Employee benefit costs	(14)	(14)
Net loss from fair value adjustments	(144)	(868)
Loss on derivative financial instrument	0	0
Other expenses and foreign exchange differences	(336)	(520)
Total expenses	**(1,529)**	**(25,199)**
Profit/(loss) for the period	**879**	**5,758**
Weighted average number of shares in the year (in thousands)	**60,450**	**60,450**
Earnings per share - basic and dilluted	**0.014**	**0.095**

3.2 Liquidity

Table 5 *– Liquidity ratios as of 31st Dec 2012.*

Liquidity Ratios	31.12.2012	31.12.2011
Current ratio	8.46	2.87
Quick ratio	7.84	2.71
Cash ratio	7.57	2.54

Following the payment of the 2011 dividend, the liquidity ratios significantly increased. The improvement was due to the significant decrease in current liabilities by 76.4% with only 30.5% decrease in current assets. Further improvement was made in the result from rental income gained from the lease of the Mr.Bricolage stores and the receipt of interest on deposits. The total liquidity of the Fund significantly increased, which could be seen from the indicators shown in the table above. The current and quick ratios rose 2.9 times and reached respectively 8.46 and 7.84, while the cash ratio rose 2.98 times and reached 7.57.

Internal sources of liquidity

In 2012, despite the significant decreases in current assets and liabilities, Bulgarian Real Estate Fund continued to have significant internal sources of liquidity.

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

***Table 6A** – Sources of liquidity as of 31st Dec 2012.*

Liquidity souces	31.12.2012	%	31.12.2011	%
Current Assets				
Investment property held for sale	1,223	7.37%	1,373	5.75%
Trade and other receivables	525	3.16%	1,355	5.67%
Cash and cash equivalents	14,851	89.45%	21,169	88.57%
Deferred expenses	5	0.03%	5	0.02%
Total Current Assets	**16,604**	**100%**	**23,902**	**100%**

The total amount of current assets decreased by 30.53% to EUR 16,604 thousand, compared to EUR 23,902 thousand a year earlier. The main reasons for this decrease are the smaller amount of cash and cash equivalents and the smaller amount of trade receivables. The change in the figures above did not significantly change the structure of the assets, the biggest share thereto, i.e. 89.45%, still held by cash and cash equivalents. The amount of cash and cash equivalents decreased by 29.8% and reached EUR 14,851 thousand by the end of the year, compared to EUR 21,169 thousand a year earlier. As we've mentioned above, this decrease resulted from paying the dividend for year 2011 in the summer.

The second place was held by "Investment property held for sale" with 7.37%. This figure reflects the book value of the apartment house Sequoia 2 in Borovetz resort. The decrease is in the result of the annual revaluation made at the end of the year. In the following reporting periods, with the sale of new apartments, the total book value of the project is expected to fall.

The third large source of liquidity this year was held by "Trade and other receivables". Their amount fell by 61% to EUR 525 thousand from EUR 1,355 thousand in year 2011. The main reasons for this decrease are the collected receivables from the sale of the Kambanite Business Center to the amount of EUR 716 thousand, which remained as a receivable at the end of year 2011, and the collected receivables from rents from previous years. Other components of this account are interest receivables to the amount of EUR 421 thousand, which marked a significant increase as a result of the interest accrued on short-term bank deposits, which were paid to the Fund at the beginning of year 2013.

The management of BREF expects the amount of current assets to increase gradually with the inflow of rental income and interest on deposits, and to fall with the payment of the dividend due for year 2012.

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

***Table 6B** – Sources of liquidity as of 31st Dec 2012.*

Liquidity souces	31.12.2012	%	31.12.2011	%
Current liabilities				
Current part of non-current liabilities	823	41.95%	782	9.40%
Provisions for dividends due	920	46.90%	6,581	79.11%
Trade and other current liabilities	219	11.15%	957	11.50%
Total Current Liabilities	**1,962**	**100%**	**8,319**	**100%**

The total amount of current assets fell by 76.4% to EUR 1,962 thousand, compared to EUR 8,319 thousand a year earlier; the main reason thereof was the significant decrease in the provisions for dividends due. The structure of liabilities did also show significant changes with a significant increase in the share of current part of loans and interest, which was mostly offset by the share of the provisions for dividends due.

The biggest share, 46.9%, of the current liabilities at the end of year 2012, despite the significant decrease compared to the previous year, was again held by the provisions set aside by BREF for the payment of dividend for year 2012 to the amount of EUR 920 thousand. The accounted provisions for dividends due constitute 90% of the adjusted financial result estimated pursuant to Article 10 from the Act on Special Investment Purpose Companies (ASIPC). The final amount of dividends to be distributed for year 2012 will be determined and voted at the General Shareholders' Meeting, which will endorse the financial results for year 2012. The intent of the management of the Fund is at the next General Shareholders' Meeting to propose for distribution 100% of the adjusted financial result to the amount of EUR 1,023 thousand, as well as an additional dividend from the undistributed profit from previous years, which additional dividend will be to the total amount of EUR 980 thousand. Thus the total amount for distribution could rise to EUR 2,003 thousand.

The second place this year was held by the account “Current part of non-current liabilities” with 41.95%. This account reflects the amount of the installments due for the next year with regard to the remaining investment loan of the Fund, and the interest accrued thereto at the end of the year. The slight increase of this account is due to the increasing amount of the monthly principal installments due under the loan. In the next reporting periods this account is expected to steadily increase until the debt under the only investment loan of the Fund is fully paid.

At the end of 2012, despite their decreased amount, “Trade and other current liabilities” preserved approximately the same share of 11.15% in the structure of current liabilities. Their amount fell by about 77% and at the end of the year they reach EUR 219 thousand. The significant fall in the amount of these liabilities was due to the agency fee paid at the beginning of the year to the intermediary for the sale of the Kambanite Business Center and the provisions under a guarantee obligation of the Fund related to the construction of KBC, written-off at the end of the year and recognised as revenue in the Income Statement, which guarantees expired at the end of the year. In addition, this account reflects also a reduction in the amounts payable to the management company as a result of paying off quality guarantees due to the construction companies carrying out reconstruction works in the Kambanite Business Center paid by BREF during the year.

In the next reporting period BREF does not expect for the current liabilities to change significantly; as the same will be affected by the new provisions for dividends due for year 2013 and the obligations of the Fund for paying off the investment loan for the Mr.Bricolage project.

- **External sources of liquidity**

The external sources of liquidity are the equity and the investment loan as described in detail in section 3.3. Capital Resources.

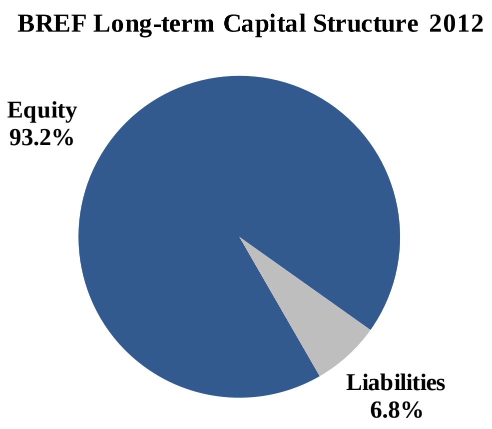
BREF has sufficient financial resources available to fully support its activity during the following months, as well as to fully pay the 2012 dividend. From viewpoint of allocation of free resources for project implementation, BREF will focus mainly in searching for new investment projects and currently does not intend to attract new funds from external sources.

3.3 Capital resources

At the end of December 2012, the long-term capital of BREF, equity and external financing, amounted to EUR 39,727 thousand, which is a drop by 2.10% or EUR 850 thousand as compared to the previous year. This change was caused primarily to the paid off principal under the investment loan of the Fund and the provisions made for dividends for year 2012, which resulted in a reduction in the equity and an increase in the current liabilities.

The decrease in equity and long-term borrowed funds changed the structure of the capital, which showed a decrease in the share of external financing, which reached 6.8% compared to 8.7% at the end of the previous year. The distribution between equity and long-term external financing is presented in the figures below.

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



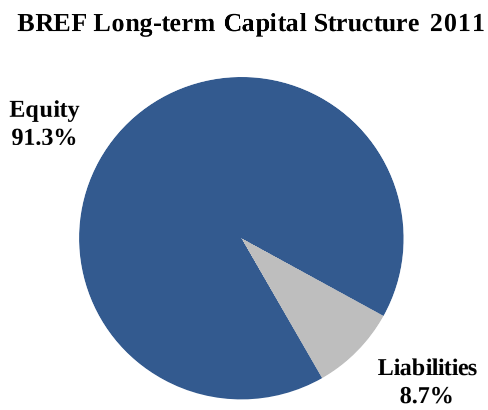


Table 7 *– Leverage ratios*

Leverage ratios	31.12.2012	31.12.2011
Debt-to-Equity	0.13	0.33
Non-Current Assets-to-Equity ratio	0.69	0.68
Long-term-Debt-to-Non-Current-Asset ratio	0.11	0.14

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

■ Equity

At the end of 2012 the Fund's equity amounted to EUR 37,006 thousand or a 0.11% drop compared to its level in 2011. We attribute the decrease to the provisions made for dividends at the amount of EUR 920 thousand, which is partially offset by the realized profit for the period at EUR 879 thousand.

Table 8 *– Total equity as of 31st Dec 2012.*

Equity (in thousands)	31.12.2012	31.12.2011
Share capital	30,907	30,907
Share premium	5,016	5,016
Retained earnings	1,083	1,124
Total equity	**37,006**	**37,047**

■ External financing

In the past year the Fund has been paying regularly all due installments on its investment loan utilized for financing the Mr. Bricolage project. The total non-paid principal on the loan at the end of December 2012 is EUR 3.55 million. The maturity date of the loan is December 2016. No new investment loans have been utilized during the reviewed period.

■ Capital expenses during the next year

The investment strategy of the Fund for 2013 will be exclusively directed towards the operational management of the undergoing projects, but will also seek new investment opportunities.

We envisage utilizing the current capital resources to finance BREF current and future projects. However, should a necessity arise, BREF is prepared to use debt capital.

3.4 Assets structure

BREF's total assets as of the end of December 2012 dropped by 14.74% to EUR 41,979 thousand in comparison with the end of 2011 when total assets amounted to EUR 49,239 thousand. We attribute the decrease mostly to the smaller amount of cash and cash equivalents and the smaller amount of trade receivables.

***Table 9** – Asset structure*

Asset structure (thousand EUR)	31.12.2012	% share	31.12.2011	% share
Non-current assets incl.	**25,375**	**60.4%**	**25,337**	**51.5%**
- total property	*25,372*	60.4%	*25,328*	51.4%
Current assets incl.	**16,604**	**39.6%**	**23,902**	**48.5%**
- trade receivable	*525*	1.2%	*1,355*	2.8%
- investment property held for sale	*1,223*	2.9%	*1,373*	2.8%
- cash and cash equivalents	*14,851*	35.4%	*21,169*	43.0%
Total assets	**41,979**	**100%**	**49,239**	**100%**

The overall structure of assets was changed mainly by the significant payments made through the year and the resulting change in the amount of current assets. The share of long-term assets increased from 51.5% to 60.4% at the end of the year, the change being completely offset by current assets. The increase in long-term assets resulted from the bigger amount of investment property, which grew as a result of the revaluations made at the end of 2012 and the capitalized costs through the year.

The overall structure of current assets did not change significantly as "Cash and cash equivalents" remained the biggest component, followed by "Investment property held for sale" and "Trade receivables".

3.5 Financial Results

BREF's activity in 2012 was concentrated in operational management of the free cash in the accounts of the Fund and improving the return on the Mr. Bricolage project.

Revenue from operations

The total revenues during the reporting period are EUR 2,409 thousand, which represents a significant decrease compared to the previous year, mainly due to the lack of sales of real estates during the period and the sale of the Kambanite Business Center in 2011, which project had been generating serious rental income.

***Table 10** –Revenues accumulated in 2012 and 2011.*

Revenue (in thousand EUR)	2012	% share	2011	% share
Income from sale of assets	0	0.0%	28,001	90.5%
Rental income	1,090	45.3%	2,647	8.6%
Interest income	1,071	44.5%	242	0.8%
Gain on derivative financial instrument	52	2.1%	9	0.0%
Other Income	195	8.1%	58	0.2%
Total revenue	**2,409**	**100%**	**30,957**	**100%**

The structure of revenues changed, this year the largest share took the rental income with 45.3%, immediately followed by the share of interest income comprising 44.5%.

In 2012 the rental income showed significant decrease of 58.8% and reached EUR 1,090 thousand. This decrease was due to the sale of agricultural land and the Kambanite Business Center made in 2011, which used to generate significant rental income through the past years. The rental income realized during the last year is mainly under Mr. Bricolage project, and to a lesser extent income from land rent.

The "Interest income" account showed yet another major change in 2012. As a result of the significant cash resources accrued at the end of 2011 and the short-term deposits made in 2012, this income grew more than 4.4 times and is expected to be significant in amount during the current year. A bigger decrease could be expected as a result of the dividends for year 2011 paid off in the past year and after paying off the dividend for 2012 in the current year.

The "Other income" account also marked an increase. This increase was mainly due to the provisions under a guarantee obligation of the Fund amounting to EUR 176 thousand and related to the construction of KBC, written-off at the end of the year and recognised as revenue in the Income Statement. These guarantees expired at the end of the year, which released the Fund from its obligation. This was a one-time entry and the expectations are for this income to be much smaller in amount for the next period.

During the next year the expectations of the Fund are for the total amount of income to be lower, mainly as a result of the lower interest income and the lower amount of the other income. The main income will be generated from rental income from the trade centers Mr.Bricolage and the interest income.

Expenses from operations

Just like income, expenses also marked a significant decrease of 16.5 times compared to the ones in 2011. The main reason thereof was the lack of any written-off assets as a result of sales made through the year and the lack of any ancillary expenses again related to the sale of real estates. Expenses on interest payable also marked a decrease, just like the net expenses from revaluation of assets.

Table 11 *– Realized expenses in 2012 and 2011*

Expenses (in thousand EUR)	2012	% share	2011	% share
Value of sold assets	-	0.0%	(20,287)	80.5%
Interest expense	(234)	15.3%	(566)	2.2%
Management and success fees	(564)	36.9%	(2,026)	8.0%
Direct operating expenses arising from	(197)	12.9%	(354)	1.4%
Agency fees and local taxes related to sale of	-	0.0%	(539)	2.1%
BOD remunerations	(40)	2.6%	(25)	0.1%
Employee benefit costs	(14)	0.9%	(14)	0.1%
Net loss from fair value adjustments	(144)	9.4%	(868)	3.4%
Loss on derivative financial instrument	-	0.0%	-	0.0%
Other expenses and foreign exchange	(336)	22.0%	(520)	2.1%
Total expenses	**(1,529)**	**100%**	**(25,199)**	**100%**

In 2012 the structure of expenses did also show a significant change, the largest share of 36.9% being held by "Management and success fees". Unlike 2011, this year this account includes only the basic management fee, no success fee being accounted for.

The second big share of 22% is taken by the account "Other income". The main entries relate to the writing-off of an expense of old receivables from the sale of real estates, which were carried as uncollectible at the end of the year. These expenses are one-time in nature and are not expected to occur in the next reporting period.

The next component (15.3%) in the structure of the expenses was the interest expense, which include the interest accrued and paid off on the loan and the cost of the interest swap used up for financing the Mr. Bricolage project. This account marked a significant decrease of 2.4 times resulting from the early pay-off of the loan under the Kambanite Business Center project made in 2011 and the decrease of the unsettled principal on the loan used up for Mr. Bricolage project. In the next reporting periods the amount of the interest paid off is expected to continue to drop until the final payment of the principal on the current loan of the Fund.

The direct operating expenses arising from properties with a share of 12.9% also marked a decrease. The reported result amounts to EUR 197 thousand, the biggest expenses in the account being the real estate taxes and the garbage-collection fees, as well as the cost of the repairs made through the year of the Mr.Bricolage stores.

The expectations for the next reporting period are for the expenses to drop in general; an increase could be observed if new investment projects are started.

Financial result

In the past year BREF realized a significant decrease in the financial result, which in 2012 reached EUR 879 thousand. The main reason thereof is the lack of any sales of real estates during the year, which limited the incomes mainly to rental and interest income. If the net loss from the revaluations at the end of the year is not taken into account, the Fund would realize an operating profit of EUR 1,023 thousand.

***Table 12** – Financial results for 2012 and 2011.*

Financial Result	2012	2011
Revenues	2,408	30,957
Expences	(1,529)	(25,199)
Net profit/loss for the period	**879**	**5,758**

Accounting profit divided to the average shares outstanding during the year gives earnings per share (EPS) of EUR 0.014. Provisions for dividends for 2012 estimated pursuant to Article 10, paragraph 3 from the Act on Special Investment Purpose Companies amount to EUR 920 thousand, which makes a gross dividend per share to the amount of EUR 0.0152 per share. The intention of the management of the Fund is at the next General Shareholders' Meeting to vote a bigger dividend than the minimum amount stipulated in the law. If the proposal of the management is accepted, the total amount for distribution could grow to EUR 2,003 thousand, or a EUR 0.0331 gross dividend per share.

The NAV per share of the Fund dropped from EUR 0.613 per share to EUR 0.612 per share, which is a decrease of 0.16% on a yearly basis. We attribute the decrease in NAV to the provisions made for dividends for 2012 to the amount of EUR 920 thousand, which was subtracted from the Fund's equity and reduced the net asset value.

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

Results per share (EUR '000)	2012	2011
Earnings	879	5,758
Earnings per share (EPS)	0.014	0.095
Net asset value (NAV)	37,006	37,047
Commom shares outstanding	60,450	60,450
NAV per share	0.612	0.613
Dividend per share	0.0152	0.1089
Fair value per share	0.627	0.722

*Fair value per share = NAV per share + dividend per share

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 2012, 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

Since the beginning of the year the shares of Bulgarian Real Estate Fund have registered a drop of 20.85% to BGN 0.52 per share as at 28th December 2012. However, it should be noted that the performance of the Fund's shares reflects the distribution of dividends by the Company from the profit for 2011. As at 18th June 2012, which was the last date for trade in dividend-bearing shares, the price of the shares of Bulgarian Real Estate Fund was BGN 0.695; as at 19th June 2012 one share was traded for BGN 0.45. The gross dividend, paid within 2012, amounts to BGN 0.2129171 per share.

In general, BGREIT, the index reflecting the performance of companies investing into real estate, marked a substantial increase of 60% during 2012. Special investment purpose companies registered the biggest interest from investors due to their stable financial statements, the quality of their investment portfolios and the practice of paying attractive dividends.

In 2013 a gradual renewal of investors' interest in shares listed on the Bulgarian Stock Exchange can be expected. Although the debt problems in Europe have not been resolved yet, there is a clear political will for the unity of the European Community to be preserved at all costs.

Summarized trading details for the 52 week period – 1st January 2012 – 31st December 2012:

- Opening Price – BGN 0.657 (4 January 2012)
- Closing Price – BGN 0.520 (28 December 2012)
- Highest Price – BGN 0.76 (22 March 2012)
- Lowest Price – BGN 0.45 (19 June 2012)
- Total Trading Volume – 7,943,014 shares
- Turnover for the period – BGN 4,684,515 (EUR 2,395,155)
- Weighted average price – BGN 0.59
- Market Capitalisation (31.12.2012) – BGN 31,434,000 (EUR 16,071,949)

Figure 3 *– Financial results per share*