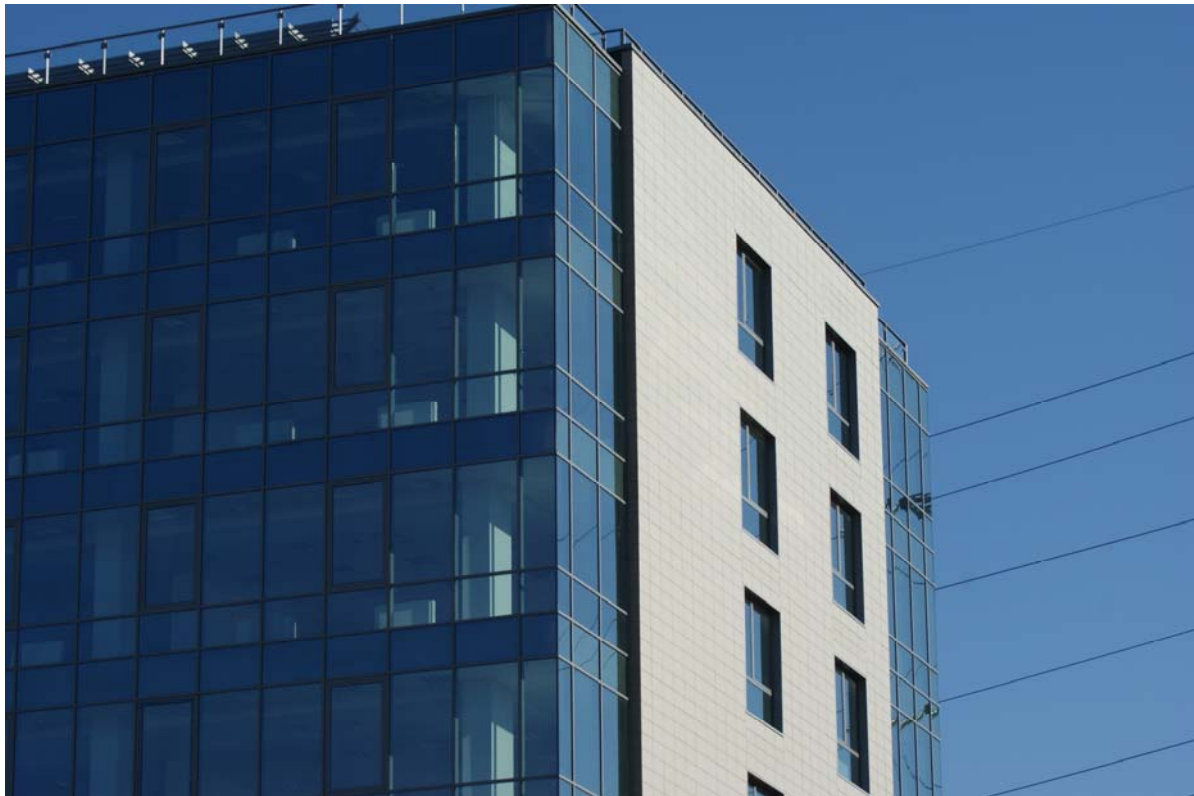


# **“Bulgarian Real Estate Fund”**

## **First Quarter Summary Report**



16 June 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 (31.03.2011)	Shares Outstanding
Bulgarian Stock Exchange Sofia	5BU (BREF)	EUR 23,737,032	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

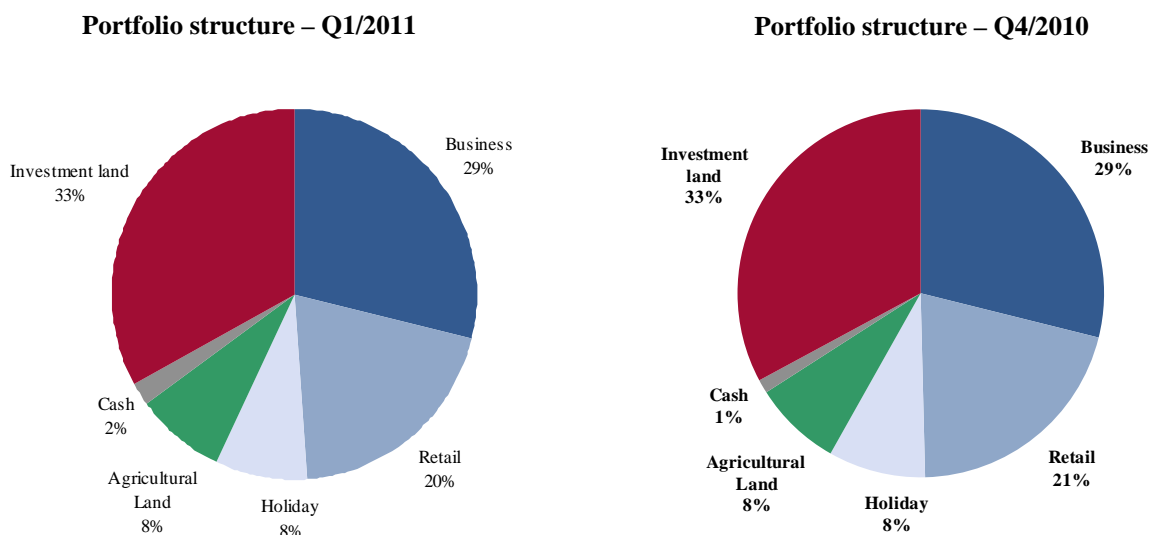
In the first quarter of 2011 the structure of BREF’s portfolio remained almost the same. The only change is in the share of cash and cash equivalents which increased from 1% to 2%.

The key highlights during the last quarter were as follows:

- Renting out the rest of available premises in Kambanite Business Center to “Dance Academy-2”, thus reaching 100 % occupation of the building;
- Reconstruction of the lastly rented premises in Kambanite Business Center and consignment of the new offices;
- Active marketing of the apartments and garages in apartment house Sequoia II – Borovetz;
- Preparation for planned repairs of the “Mr. Bricolage” store situated in Sofia.

The projects managed by BREF as of the end of March 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 31.03.2011	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	renting out / for sale	14,203	14,203	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>55,408</b>	<b>48,513</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 the second half of 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 last 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, a preparation was made for a planned repair of the retail in Sofia which will be carried out next quarter.

## 2.3 Project – Agricultural land

In the last quarter the Fund did not realize any sales of agricultural land. As of the end of March 2011 the Fund owns a total of 23,300.86 dka agricultural land plots.

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 March 2011 the rented out agricultural properties totals 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:

Agricultural land	
Acquired area	23,300.86 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 January 2011 BREF signed a contract with “Dance Academy - 2” who rented the last available premises in KBC. Thus the building reached 100 % occupancy. Hewlett-Packard is the anchor tenant as it rents 92% of KBC.

*Table 2 – Structure of the tenants of KBC as of 31<sup>st</sup> March 2011*

Tenant	% of built-up area
Hewlett-Packard Global Delivery Bulgaria (HP)	86.16%
Hewlett-Packard Bulgaria (HP)	6.16%
Kenar-Kulinar	3.26%
Dance Academy - 2	2.70%
Onda Coffee Break EAD	1.06%
ING Bank	0.66%
<b>TOTAL</b>	<b>100%</b>

During the quarter all reconstructions were completed and the premises were consigned to their respective tenants. In relation to that additional amendments were made which reflected on the value of KBC.

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

### Project parameters:

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

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

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

The “Sequoia 2” apartment house consists of 36 apartments situated on 5 floors and 9 garages. The Sequoia complex is situated close to a picturesque pine forest within walking distance of the very centre of the resort and only 50 meters from the bottom Station of New Gondola which is part of SUPER BOROVIETZ project.

During the past quarter no apartments were sold. As of the end of March 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:

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

## 2.6 Project – Seaside Holiday Village

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

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

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

### Project parameters:

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

## 2.7 Project – Investment plots near Veliko Turnovo

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

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

### Project parameters:

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

## 2.8 Project – Investment plots near Vidin

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

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

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

### Project parameters:

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

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

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

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

### Project parameters:

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

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

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

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

### Project parameters:

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



## 3 Financial Highlights Q1 / 2011.

### 3.1 Summarized Financial Statements

The following financial statements are based on the audited annual report of BREF for 2010 and the non-audited financial statements for the first quarter of 2011.

*Table 3 – Balance sheet as of 31<sup>st</sup> Mar 2011 and 31<sup>st</sup> Dec 2010.*

(All amounts in EUR '000)	31.03.2011	31.12.2010
<b>ASSETS</b>		
<b>Non-current Assets</b>		
Investment property	30,894	30,895
Plant and equipment	17	18
Intangible assets	3	4
Deferred expenses	268	244
<b>Total Non-current Assets</b>	<b>31,182</b>	<b>31,161</b>
<b>Current Assets</b>		
Investment property held for sale and trade	17,011	16,986
Trade and other receivables	617	830
Cash and cash equivalents	849	595
Deferred expenses	132	134
<b>Total Current Assets</b>	<b>18,609</b>	<b>18,545</b>
<b>TOTAL ASSETS</b>	<b>49,791</b>	<b>49,706</b>
<b>EQUITY AND LIABILITIES</b>		
<b>Equity</b>		
Share capital	30,907	30,907
Share premium	5,016	5,016
Retained earnings	2,424	1,947
<b>Total equity</b>	<b>38,347</b>	<b>37,870</b>
<b>Non-current liabilities</b>		
Interest bearing loan	8,027	8,329
Derivative financial instrument	233	351
<b>Total Non-current liabilities</b>	<b>8,260</b>	<b>8,680</b>
<b>Current liabilities</b>		
Current part of non-current liabilities	1,195	1,177
VAT payable	60	19
Payables to management company	366	452
Payables to the personnel and SIC	3	0
Provisions for dividends due	1,225	1,225
Trade and Other current liabilities	335	283
<b>Total Current liabilities</b>	<b>3,184</b>	<b>3,156</b>
<b>Total liabilities</b>	<b>11,444</b>	<b>11,836</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>49,791</b>	<b>49,706</b>

**Table 4 – P&L statement for the quarters ending on 31<sup>st</sup> Mar 2011 and 31<sup>st</sup> Dec 2010.**

(All amounts in EUR '000)	Q1 - 2011	Q4 - 2010
Income from sale of assets	0	535
Rental income	814	704
Revenue from interest and other financial revenues	13	14
Other financial income	118	94
Other Income	5	300
<b>Total Revenue</b>	<b>950</b>	<b>1,646</b>
Value of sold assets	0	(492)
Interest expense	(160)	(162)
Management fees	(142)	(197)
Materials expense	(25)	(44)
BOD and employees salaries expense	(8)	(8)
Loss from fair value adjustments	0	(925)
Loss on financial instruments	0	0
Other expenses	(139)	(400)
<b>Total expenses</b>	<b>(474)</b>	<b>(2,229)</b>
<b>Profit/(loss) for the period</b>	<b>476</b>	<b>(583)</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>0.008</b>	<b>(0.010)</b>

### 3.2 Liquidity

**Table 5 – Liquidity ratios as of 31<sup>st</sup> Mar 2011 and 31<sup>st</sup> Dec 2010.**

Liquidity Ratios	31.03.2011	31.12.2010
Current ratio	5.85	5.88
Quick ratio	0.50	0.49
Cash ratio	0.27	0.19

In the first quarter of 2011 the liquidity ratios move in different directions. The main change is observed in the cash ratio which rises from 0.19 to 0.27 due to the increased cash and cash equivalents as results of received rent payments.

The current liquidity ratio registers a slight decrease from 5.88 in the end of the fourth quarter of 2010 to 5.85 in the end of the first quarter of 2011. The reported change we attribute to the higher percentage growth in current liabilities (0.87%) versus growth in current assets (0.34%). Major contribution to the uplift in current liabilities has the VAT payable as well as the amounts due to the construction companies carrying out reconstructions of KBC.

For the next quarter, the Fund expects to improve its liquidity due to further accumulation of cash & cash equivalents from receiving rent payments. Sale of assets could also have a positive influence on the Fund's liquidity.

## ■ Internal sources of liquidity

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

### ○ Short-term (current) assets

*Table 5A – Sources of liquidity as of 31<sup>st</sup> Mar 2011 and 31<sup>st</sup> Dec 2010.*

Liquidity sources	31.03.2011	%	31.12.2010	%
<b>Current Assets</b>				
Investment property held for sale and trade	17,011	91.4%	16,986	91.6%
Trade and other receivables	617	3.3%	830	4.5%
Cash and cash equivalents	849	4.6%	595	3.2%
Deferred expenses	132	0.7%	134	0.7%
<b>Total Current Assets</b>	<b>18,609</b>	<b>100%</b>	<b>18,545</b>	<b>100%</b>

The total amount of current assets rose by 0.34% to EUR 18,609 thousand as opposed to EUR 18,545 thousand in the previous quarter. The overall structure of current assets changed due to changes in the shares of Cash and cash equivalents and Trade and other receivables.

The main share (91.4%) of the current assets was taken by the “Investment property held for sale and trade” account. This account constituted of the Fund’s properties held for sale, and namely: the office part of Kambanite Business Center and the apartment house in Borovetz. The reported rise of this account in comparison to the previous quarter is a result of the increased book value of Kambanite Business Centre due to the improvements made.

The second source of liquidity (4.6%) was the “Cash and cash equivalents” account as its amount increased to EUR 849 thousand due to received rent payments.

The third source of liquidity (3.3%) was taken by “Trade and other receivables” account. This account marked a slight decrease due to collected during the period receivables from the anchor tenant of Kambanite Business Center regarding the reconstructions made at the tenant’s expense. Other receivables included in this account are the receivables from land rents and the receivables from property sales realized in previous reporting periods.

The management of BREF expects the amount of the current assets to increase gradually with the growth of both cash & cash equivalents and trade receivables from land rents, and to decrease as a result of paying off the Fund’s liabilities to construction companies.

### ○ Short-term (current) liabilities

*Table 5B – Sources of liquidity as of 31<sup>st</sup> Mar 2011 and 31<sup>st</sup> Dec 2010.*

Liquidity sources	31.03.2011	%	31.12.2010	%
<b>Current liabilities</b>				
Current part of non-current liabilities	1,195	37.5%	1,177	37.3%
VAT payable	60	1.9%	19	0.6%
Payables to management company	366	11.5%	452	14.3%
Payables to the personnel and SIC	3	0.1%	0	0.0%
Provisions for dividends due	1,225	38.5%	1,225	38.8%
Trade and Other current liabilities	335	10.5%	283	9.0%
<b>Total Current Liabilities</b>	<b>3,184</b>	<b>100%</b>	<b>3,156</b>	<b>100%</b>

The amount of the current liabilities marked an increase of 0.87% to EUR 3,184 thousand as opposed to EUR 3,156 thousand in the previous quarter, with the overall liabilities structure remaining unchanged.

The most significant component (38.5%) 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 final amount of dividends to be distributed for 2010 will be determined and voted on the annual General Assembly.

The next share of 37.05% 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 received 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 paid.

The third component (11.5%) takes the “Payables to the management company” account. The reported reduction results from paying off liabilities to construction companies hired through the Management Company.

The relative share of “Trade and other current liabilities” rises from 9% to 10.5% due to an increase in their amount. This account is mainly composed of the liabilities of BREF to the construction companies performing reconstructions of KBC, provisions for construction works, provisions for non-collectible land rents and other trade payables associated with the activity of the Fund.

The smallest share takes the “VAT payables” account due to the payments made during the period. In the future this account will be formed by the due VAT by the end of the last month of the quarter. The reported payables will be paid off in the beginning of the month following the one of the report.

In the next reporting period BREF expects the current liabilities to decrease as the liabilities to construction companies are being paid off.

#### ■ **External sources of liquidity**

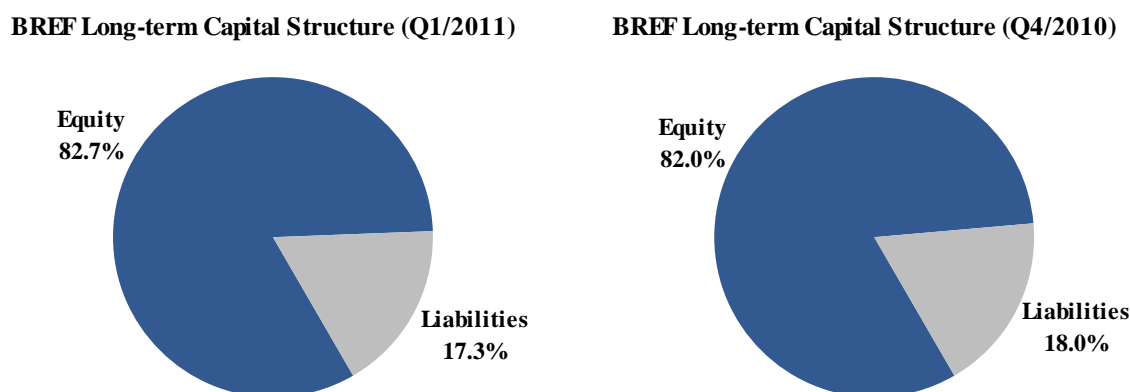
The external sources of liquidity are the equity and the two investment bank loans, which are explained in details in point 3.3 Capital resources.

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 periods. The Fund will concentrate its activity predominantly in managing the yielding projects of the Fund, such as Kambanite Business Center, Mr. Bricolage stores and the agricultural land owned by the Fund.

### **3.3 Capital resources**

As of the end of March 2011 the long-term capital of the Fund, equity and external financing, reported an increase of EUR 175 thousand to reach EUR 46,374 thousand. The upward change was mainly caused by the reported profit for the period which effect was partially offset by the paid-off principal of the two investment loans of the Fund.

Despite the reported increase, the structure of the long-term capital remained approximately the same with a slight increase in the share of equity to 82.7%. 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	31.03.2011	31.12.2010
Debt-to-Equity	0.30	0.31
Non-Current Assets-to-Equity ratio	0.81	0.82
Long-term-Debt-to-Non-Current-Asset ratio	0.26	0.27

\*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 March 2011 the equity of the Fund totals EUR 38,347 thousand which is an increase of 1.26% compared to the previous quarter. We attribute the increase solely to the realized profit for the period at the amount of EUR 476 thousand resulting from rental income.

**Table 7 – Total equity as of 31<sup>st</sup> Mar 2011 and 31<sup>st</sup> Dec 2010.**

Equity (thousand EUR)	31.03.2011	31.12.2010
Share capital	30,907	30,907
Share premium	5,016	5,016
Retained earnings	2,424	1,947
<b>Total equity</b>	<b>38,347</b>	<b>37,870</b>

## ■ External financing

In the past quarter the Fund has paid all due payments on the investment loans utilized for the acquisition of the projects „Mr. Bricolage” and “Kambanite Business Center”. The total non-paid principal on the two loans as of 31<sup>st</sup> March 2011 is EUR 9.3 million. The maturity dates of the loans are December 2016 and October 2018 for „Mr. Bricolage” and “Kambanite 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 current, 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 March 2011 increased modestly by 0.17% to EUR 49,791 thousand in comparison with the previous quarter when total assets amounted at EUR 49,706 thousand. The reported uplift we attribute to the accumulated cash and cash equivalents from rental payments and to the new book value of KBC increased with the amount of improvements made.

*Table 8 – Asset structure*

Asset structure (thousand EUR)	31.03.2011	% share	31.12.2010	% share
<b>Non-current assets incl.</b>	<b>31,182</b>	<b>62.6%</b>	<b>31,161</b>	<b>62.7%</b>
- total property	30,894	62.0%	30,895	62.2%
<b>Current assets incl.</b>	<b>18,609</b>	<b>37.4%</b>	<b>18,545</b>	<b>37.3%</b>
- trade and other receivables	618	1.2%	830	1.7%
- investment property held for sale and trade	17,011	34.2%	16,986	34.2%
- cash and cash equivalents	849	1.7%	595	1.2%
<b>Total assets</b>	<b>49,791</b>	<b>100%</b>	<b>49,706</b>	<b>100%</b>

The overall structure of total assets remains unchanged as long-term assets take the largest share – 62.6%, whereas the current assets take the remaining 37.4%.

As no sales of properties were realized during the past quarter the structure of long-term assets remains the same.

Changes are observed in the structure of current assets as “Investment property held for sale and trade” keeps its largest share but “Trade and other payables” give way to “Cash and cash equivalents”. As stated above in this report the driving force for the decrease in the share of trade and other receivables is the paid by the tenant value of KBC reconstructions.

BREF's forecasts for the current year envisage the 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 first quarter of 2011 was mainly focussed on operational management of the KBC project.

#### ■ Revenue from operations

Total revenue during the reported period is EUR 950 thousand with rental income accounting for most of it.

*Table 9 – Realized revenues for the quarters ending on 31<sup>st</sup> Mar 2011 and 31<sup>st</sup> Dec 2010.*

Revenue (thousand EUR)	Q1 - 2011	% share	Q4 - 2010	% share
Income from sale of assets	0	0.0%	535	32.5%
Rental income	814	85.7%	704	42.7%
Revenue from interest and other financial revenues	13	1.4%	14	0.8%
Other financial income	118	12.4%	94	5.7%
Other Income	5	0.5%	300	18.2%
<b>Total revenue</b>	<b>950</b>	<b>100%</b>	<b>1,646</b>	<b>100%</b>

In the first quarter of 2011 the largest share 85.7% of the revenues takes the rental income at EUR 814 thousand, 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.

As no sales of property were realized during the quarter, “Income from sale of assets” is zero. The second big share in BREF’s revenues structure is taken by the “Other financial income” account which reflects the realized gain from interest swap through which the Fund exchanges floating for fixed interest rate on its “Mr. Bricolage” investment loan. The reported gain results from the higher level of EURIBOR during the reporting period.

The third share (1.4%) is taken by the “Revenues from interest” which amount remains close to the one reported in the previous quarter. This income is expected to remain relatively unchanged during the next quarter.

The “Other income” account marked the most substantial change as it declined from EUR 300 thousand to EUR 5 thousand. This account reflects the movements in impairment provision of receivables. In the last quarter of 2010 the impaired receivables were successfully collected by BREF and the provisions made for them were recognized back as income.

BREF envisages total revenue in the next quarter to be boosted by rental income due to the increased occupancy rate of the KBC building.

### ■ Expenses from operations

In the past quarter the structure of expenses changed substantially due to the lack of losses from fair value adjustments and the lack of written-off book value of assets sold as no assets were disposed of.

*Table 10 – Realized expenses for the quarters ending on 31<sup>st</sup> Mar 2011 and 31<sup>st</sup> Dec 2010.*

Expenses (thousand EUR)	Q1 - 2011	% share	Q4 - 2010	% share
Value of sold assets	0	0.0%	(492)	22.1%
Interest expense	(160)	33.8%	(162)	7.3%
Management fees	(142)	30.0%	(197)	8.9%
Materials expense	(25)	5.3%	(44)	2.0%
BOD and employees salaries expense	(8)	1.6%	(8)	0.4%
Loss from fair value adjustments	0	0.0%	(925)	41.5%
Other expenses	(139)	29.3%	(400)	17.9%
<b>Total expenses</b>	<b>(474)</b>	<b>100%</b>	<b>(2,229)</b>	<b>100%</b>

In contrast with the previous quarter when major components of expenses were the losses from fair value adjustments and the book value of assets sold, in the first quarter of 2011 interest expense has the largest share (33.8%) in the structure of expenses. Interest expenses include 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.

The second big component (30%) in the expenses structure was the “Management and success fees” account which declines due to the lack of success fees for property sales.

The next component (29.3%) in the expenses structure was the “Other expenses” account comprised of provisions for impairments, property taxes and other fees on the owned properties as well as the amortized bank fees related to mastering the Fund’s loans.

BREF expects expenses to rise in the next quarter as a result of property sales.

### ■ Financial result

BREF realized a net profit of EUR 476 thousand for the first quarter of 2011 as opposed to the reported net loss of EUR 583 thousand for the fourth quarter of 2010. The realized net loss resulted from negative fair value adjustments. If the net loss from fair value adjustments in the end of 2010 was neglected, the Fund would report an operating profit of EUR 342 thousand for the last quarter of 2010. Consequently, profit growth on a quarterly basis is 39.31%.

**Table 11 – Financial result for the quarters ending on 31<sup>st</sup> Mar 2011 and 31<sup>st</sup> Dec 2010.**

Financial Result (thousand EUR)	Q1 - 2011	Q4 - 2010
Revenues	950	1,646
Expences	(474)	(2,229)
<b>Net profit/loss for the period</b>	<b>476</b>	<b>(583)</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 March 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

Since the beginning of 2011 positive sentiments among the participants in the Bulgarian capital market accompanied by higher turnovers have been observed. The year started with a 9.88% growth for the leading index SOFIX in January. In February the index outlined as the fastest growing index in Central and Eastern Europe as it marked a 13% growth on a monthly basis. In March the Bulgarian stock market stayed aside from the influence of geopolitical problems in North Africa and the earthquake in Japan. SOFIX kept its level and reported a minimum monthly decline of 0.99% ending the quarter with a growth of 22.93% to 445.43 points.

A number of public companies recorded substantial returns from the beginning of 2011. Bulgarian Real Estate Fund did not make an exception and added 46.29% to BGN 0.768 per share. The reported growth reflects the posted good financial results for 2010 and the news that 100% occupancy of KBC was reached.

BREF participates in the real estate companies' index BGREIT and the broad index BG40. In March 2011 it entered in the composition of the blue-chip index SOFIX which could attract the attention of large institutional investors to the Fund's shares.

Provisions for dividends due for 2010 are to the amount of EUR 1,225 thousand, which represents BGN 0.0202 gross dividend per share to be voted on the regular annual General Assembly of BREF's shareholders.

Summarized trading details for the 52 week period – 1<sup>st</sup> April 2010 – 31<sup>st</sup> March 2011:

- Opening Price – BGN 0.351 (6 April 2010)
- Closing Price – BGN 0.786 (31 March 2010)
- Highest Price – BGN 0.786 (31 March 2010)
- Lowest Price – BGN 0.310 (18 August 2010)
- Total Trading Volume – 16,820,946 shares
- Turnover for the period – BGN 8,501,521 (EUR 4,346,759)
- Weighted average price – BGN 0.505
- Market Capitalisation (31.03.2011) – BGN 46,425,600 (EUR 23,737,032)

**BREF Share Price Performance**  
(1.04.2010 - 31.03.2011)

