

“Bulgarian Real Estate Fund”

Annual Report 2009



March 2010

Contents

1	<i>Fund's Overview</i>	3
2	<i>Letter to the Shareholders</i>	4
3	<i>Financial Highlights</i>	6
4	<i>Portfolio</i>	7
5	<i>Selected Financial Data</i>	13
6	<i>Important events occurred after the balance sheet date</i>	22
7	<i>Share performance</i>	22

1 Fund's Overview

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 relatively low risk portfolio.

In 2009 the Fund was extremely passive in terms of new projects as the only investments were made in additional refurbishing of KBC office, which was requested by its anchor tenant – Hewlett Packard - Bulgaria. Other than that BREF concentrated its efforts on the operational management of its yielding projects aiming to offset the downturn in acquisition / disposal activity in the Bulgarian real estate market.

Bulgarian Real Estate Fund is among the largest REITs in Bulgaria in terms of market capitalization and holds excellent reputation among local banks, property owners and the investment community, a definite sign for its competent management and publicly approved results.

Stock Exchange	Ticker Symbol	Market Capitalization (31.12.2009)	Shares Outstanding
Bulgarian Stock Exchange Sofia	BREF	EUR 11,435,810	60,450,000

2 Letter to the Shareholders

Dear Shareholders,

In 2009 real estate companies in Bulgaria were challenged to handle with the pronounced downturn of the real estate market as well as with the global economic and financial crisis. In contrast to 2008, the most successful year since the incorporation of the entity in 2004, in 2009 BREF had to surmount the economic downturn in Bulgaria by optimizing its activity and income, minimizing expenditures and postponing all new investment projects for more favourable times. Despite the unfavourable conditions, we are proud to announce that thanks to the timely measures taken throughout the year and the intensive efforts of the management, the Fund achieved strong results which will allow the company to distribute dividends to its shareholders for 2009.

The most significant achievement for the period was the successful completion of the construction of the Kambanite Business Centre and putting the building in April 2009 into operation. Against the background of the signed in 2008 rent agreement with Hewlett-Packard and the additional rent agreements with other tenants, the project became the next successful one in the BREF's portfolio, and started to generate significant income for the company. Together with other projects of great importance like Mr.Bricolage and Agricultural lands, which also are main source of income, Kambanite Business Centre was behind the success of the Fund throughout the year.

The total revenue of BREF for 2009 amounted to EUR 5,297 thousand as compared to EUR 47,970 thousand in 2008 which is a 9 fold decrease on an annual basis. This significant reduction is attributed to the much lower sales of properties about EUR 1,751 thousand in 2009 compared with EUR 45,889 thousand in 2008. On the other hand, due to the additionally rented office space in Kamabnite Business Centre, the rental income increased by 73% to EUR 2,256 thousand, and secures a steady income flow for the Fund in the future. While BREF achieved a strong EBITDA result, its net financial result for 2009 is negative (loss of EUR 2,260 thousand) , which is solely due to the depreciation at the end of the year of the company's assets amounting to EUR 3,601 thousand.

Nevertheless, in accordance with Bulgarian law, BREF is set to distribute 90% of its cash profit as dividends to its shareholders. For 2009, the latter amounts to EUR 1,214 thousand. Expressed in financial terms, the result for 2009 represents a dividend yield of 10% or expected dividend of BGN 0.039 per share (share price of BGN 0.37 as of 28.12.2009).

In 2009, despite the credit crunch in the banking sector and thanks to the excellent reputation of the fund among local banks, BREF managed to refinance part of its cost on the construction of Kambanite Business Centre. The extended bank loan amounts to EUR 5 million and the term of the loan agreement is 9 years. By leveraging the project, the Fund improved its return on the investment and secured liquidity for its future operations.

Given the still unfavourable market outlook for 2010, the priorities of BREF will be to let the rest of the available office space in the KBC building, rent additional agricultural lands out and enhance the rezoning of projects with ongoing rezoning procedures. We go forward in confidence that in the next year we will manage to increase our current income and bring additional value to the shares of BREF.

Sincerely,

Nikolay Skarlatov
Executive Director
Bulgarian Real Estate Fund



This letter and the accompanying financial information contain forward-looking statements regarding future financial performance and events. Actual results could differ materially from those projected in the forward-looking statements as a result of a number of factors, including those identified in the Company's registration document.

3 Financial Highlights

Financial highlights for the year ended December 31, 2009 (EUR '000)	2009	2008
Revenue		
Rental income	2,256	1,306
Net gains from property revaluations		-
Proceeds from sale of investment property	1,751	45,889
Total Revenues (in thousands)	5,297	47,970
Profit		
Earnings	-2,260	4,873
Weighted average number of ordinary shares (in thousand)	60,450	60,450
Earnings per share (EPS)	-0.037	0.081
Dividends		
Dividends	1,214	14,812
Common shares outstanding as of 31 Dec 2007 (in thousands)	60,450	60,450
Dividend per share (basic)	0.020	0.245
Dividend per share (net of withholding tax 5%)	0.019	0.233
NAV		
Net asset value	38,735	42,210
Net asset value per share	0.641	0.698
Property Portfolio		
Real estate assets, at cost (in thousands)	49,805	48,719
Real estate assets, book value (in thousands)	50,001	53,152
Total assets (in thousands)	51,878	68,019
Total cash & cash equivalents	1,024	13,145
Cash & cash equivalents to Assets	2%	19%
Total debt (in thousands)	13,142	25,809
Debt to assets	0.25	0.38

4 Portfolio

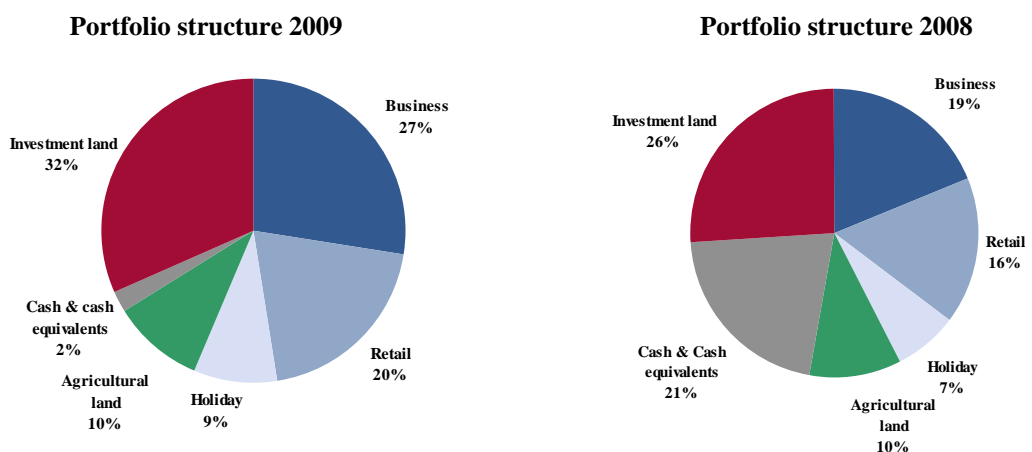
4.1 Portfolio structure

The structure of the investment portfolio of BREF incurred major changes with respect to the previous 2008 mostly in result of the decrease in cash & cash equivalents which fell due to the paid out dividend for 2008 in amount of EUR 14,812 thousand. The key developments in BREF's portfolio in 2009 are as follows:

- Completion of the construction of the office part of Kambanite Business Center (KBC) and receipt of permission of use for the office building.
- Accommodating “Hewlett Packard Global Delivery Bulgaria Center” which initiated term set in the agreement term.
- Renting out additional 1,484 sqm. office and retail space in KBC.
- Disposal of 8,736 dka agricultural land in Northwestern Bulgaria at a total sale amount of BGN 3,203 thousand.
- Sale of four apartment units in Sequoia II apartment house in Borovetz resort and conclusion of agreements for sale for two additional units which were officially realized in the beginning of 2010.
- Completion of the construction of the additional open-space parking lot, located right behind the KBC building.

With respect to the limited investment activity of the Fund in 2009, the amounts of invested funds in the different portfolio segments remain at the same level as 2008. The reported changes in the relative shares of each component in the portfolio we attribute to the significantly reduced share of the cash & cash equivalents in the end of 2009 which re-allocated the relative shares of the other portfolio segments. The only investments undertaken in 2009 were the additional finishing works of the office part of the KBC project, which falls into the Business segment.

Figure 1. Investment allocation in types of market sector for 2009 and 2008.



In the past 2009 the Fund prioritized its activity into the management of the yielding projects and namely: “Mr. Bricolage” stores, Agricultural land and office part of KBC. Apart from current management BREF invested in the construction of additional open space parking lot with capacity of more than 100 spaces, located right behind the KBC office building.

Also in 2009 the Fund was able to successfully dispose of the following assets: 8,736 dka of agricultural land and 4 apartments in the Sequoia II Apartment house in Borovetz. The table below presents BREF's projects segmented in accordance to their project stage:

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

Project	Stage of the project	Size of project	Invested till 31.12.2009	Future investments
Completed projects				
"Mr. Bricolage" - sale and leaseback	Operational management	10,172	10,172	0
Agricultural land	rent / for sale	4,985	4,985	0
Kambanite Business Centre	renting out / for sale	13,982	13,982	0
Apartment house "Sequoia2" - Borovetz	for sale	2,227	2,227	0
Projects in progress				
Seaside Holiday Village	suspended	9,203	2,308	0
Pipeline projects				
Investment plots near Veliko Tarnovo*	change of regulation	262	262	n.a
Investment plots near Vidin*	suspended	301	301	n.a
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
Total		56,702	49,805	0

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

From the above-mentioned projects "Mr. Bricolage" – sale and leaseback, Agricultural land and Kambanite Business Center are currently operational, and KBC office part and apartment house "Sequoia II" are 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, however at the moment the Fund has frozen its investments plans. 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 in 2010.

4.2 Project – "Mr. Bricolage" – sale and leaseback

In the second half of 2006, BREF concluded two "sale and leaseback" deals with the French "Do-It-Yourself" chain "Mr. Bricolage". Situated in Varna and Sofia, the stores are two of the best performing branches in the country of the retailer.

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 generates stable yearly income of EUR 1,081,764 for the terms of the rent agreements.

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

In 2009 the Fund carried out some repairs on part of the equipment and the visor of the retail store in Varna. 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 the both stores. No damages or break-downs were registered during this period.

4.3 Project – Agricultural Land

After investing in the acquisition of additional agricultural land plots in 2008, in 2009 BREF focused on renting out a maximum amount of the owned properties.

In the beginning of 2009 the Fund acquired additional 160 dka of land at a price per dka of BGN 401.5. In mid 2009 after conducting a thorough analysis the management of BREF took a decision to dispose of 8,736 dka of land at average sale price of BGN 366.65 per dka or at a total amount of BGN 3,203 thousand. The sold properties are mostly located in Northwestern Bulgaria where the price of agricultural land averages BGN 300 per dka. After the realized disposals the Fund remains in ownership of 31,776 dka of agricultural land.

The total amount of invested funds invested in agricultural properties since the start of the project in 2005, excluding the realized sales in 2009, are BGN 9,750 thousand, which averages to a price of BGN 306.85 per dka including the acquisition costs. The majority of the owned properties are III and IV category, with the average size of each land plot of 10-15 dka.

In the end of 2009 the total amount of rented out agricultural properties were 24,155 dka, or 76% of the totally owned properties by the Fund. The average rent price per dka increased from BGN 16.15 in 2008 to BGN 17.35 in 2009 or 7.5% YoY increase.

Project parameters:

Agricultural land	
Acquired area	31,776 dka
Investment	EUR 5.0 M
Acquisition price per dka	EUR 157
Leased area	24,155 dka
% of leased area	76.0%
Average annual rent per dka	EUR 8.9

4.4 Project – „Kambanite Business Center”

Kambanite Business Center (KBC) is a mixed-use building with two underground and seven above-ground floors offering retail and office areas. The total built-up area of the project is 31,331 sq.m, 16,266 sq.m. of which are office areas and 15,065 sq.m. being retail areas and an underground parking, which are already sold and are not owned by BREF.

KBC is located at the foot of Vitosha Mountain, on the Southern section of the Ring road in immediate vicinity to Business Park Sofia. The project faces the Ring road facilitating the access to the building which will be further improved with the completion of the third stage of Sofia’s underground.

In April 2009 the construction of the office building was completed and KBC officially received permission of use. The Fund continued to execute additional finishing works on the building which were requested by the anchor tenant “Hewlett Packard Global Delivery Bulgaria Center”.

In the end of 2009 over 65% of the office areas of the building are occupied with the main tenant, Hewlett Packard, taking approximately 55% of the areas. Among the other tenants are Bianor Holding and the fast food retail chain - Kenar Kulinar.

Until the submission of the present document, the Fund continued to be in negotiations with other potential tenants of the office building. With some of potential tenants the negotiations are in a final stage. Apart from renting out the entire office space in KBC, BREF is actively seeking potential buyers of the project.

Project parameters:

Kambanite Business Centre	
Plot area:	8,796 sq.m
Office space and common area	16,335 sq.m
Rented area	10,618 sq.m
Occupancy rate	65%

4.5 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 BOROVETZ project. The distance to the main road Borovetz-Plovdiv is only 30 meters.

Despite the drastic downturn in the holiday segment of the real estate market in Bulgaria, in 2009 BREF successfully managed to sell 4 apartments in Sequoia II apartment house, and towards the end of the year has signed agreements for sale of two additional apartments, which ownership was officially transferred to the new owners in the beginning of 2010.

Project parameters:

Apartment house "Sequoia 2" - Borovetz	
Plot area	512 sq.m
Total built-up area	3,527 sq.m
Apartments left for sale	30
Invested until December 2007	EUR 2.175.5 M

4.6 Project – Seaside Holiday Village

In June 2006 BREF acquired regulated land plot with total area of 28,758 sq.m. The land plot is situated in Tzarevo municipality, in the town of Lozenetz, Bourgas region. The property is located in close proximity to the coastal line.

The development project envisages the construction of Seaside Holiday Village. 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, retail and entertainment center.

The Fund already has prepared the preliminary design, which was submitted in the local Municipality for approval. The preliminary calculations set the total cost to EUR 9.2 million.

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 Seacoast, BREF suspended the project.

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

Project parameters:

Seaside Holiday Village	
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

4.7 Project – Investment land plots near Veliko Turnovo

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

In the past 2009 the regulation renewal procedure did not report any progress. The management of BREF expects for it to be finalized in 2010, 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

4.8 Project – Investment plots near Vidin

Another property 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 second bridge over the Danube River which is currently under construction.

BREF intends to construct a logistic center which will process the loads traveling through European Transportation Corridor №4 from Europe to Asia.

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	change of regulation

4.9 Project – Investment plots in Sofia – Ring road

Another project with good potential for future development is the acquired properties in the vicinity of Vitosha, neighboring the KBC project. The total size of the acquired properties of BREF was 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. All these give the project excellent perspectives.

In 2009 BREF developed additional temporary open space parking lot for use of KBC tenants on an area of approximately 7,000 sq.m. BREF expects the regulation procedure of the properties to be completed in 2010, after which the future development of the project will be suspended until more favorable market conditions arise.

Project parameters:

Investment Plots, Sofia - Ring road	
Total plots' area	18,052 sq.m
Purchase price	EUR 3.8 M
Status	rezoning procedure

4.10 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. The total acquisition price was EUR 19,312 thousand or EUR 243.67 per sq.m excluding the acquisition costs.

In the third quarter of 2008 the Fund finalized the preliminary agreed sale of 9 properties of the purchased properties with a total size of 31,908 sq.m. After the sale the fund remains 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

5 Selected Financial Data

5.1 Summarized Financial Statements

The following financial statements are created in full compliance with the Financial Supervision Commission standards and resemble the audited 2009 annual financial statements.

Balance Sheet for the year ended 31.12.2009 and for the year ended 31.12.2008

(All amounts in EUR '000)	31.12.2009	31.12.2008
ASSETS		
Non-current Assets		
Investment property	33 140	38 967
Furniture and fixtures	18	15
Intangible assets	6	1
Available for sale investments	271	-
Total Non-current Assets	33 435	38 983
Current Assets		
Investment property held for sale	16 861	14 185
Amounts due from brokers	93	9
Trade and interest receivables	465	1 697
Cash and cash equivalents	1 024	13 145
Total Current Assets	18 442	29 036
TOTAL ASSETS	51 877	68 019
EQUITY AND LIABILITIES		
Equity		
Share capital	30 907	30 907
Share premium	5 016	5 016
Retained earnings	2 812	6 287
Total equity	38 735	42 210
Non-current liabilities		
Interest bearing loan	9 518	5 695
Derivative financial instrument	374	234
Total Non-current liabilities	9 892	5 929
Current liabilities		
Interest bearing loans	1 081	666
Management and success fee payable	318	45
Provisions for dividends due	1 214	14 812
Deferred revenue	-	52
Trade and other payables	637	4 305
Total Current liabilities	3 250	19 880
Total liabilities	13 142	25 809
TOTAL EQUITY AND LIABILITIES	51 877	68 019

P&L statement for the year ended 31.12.2009 and for the year ended 31.12.2008

(All amounts in EUR '000)	2009	2008
Proceeds from sale of properties	1 751	45 889
Rental income	2 256	1 306
Interest income	738	704
Gain on sale of other financial assets	-	14
Other income	552	57
Total Revenue	5 297	47 970
Interest expense	(470)	(1 227)
Management and success fees	(797)	(3 660)
Agent fees and local taxes and fees on properties sold	(248)	(2 370)
Operating expenses relating with properties	(389)	(430)
Directors' fees and Board expenses	(20)	(21)
Employee benefit costs	(14)	(13)
Carrying amount of properties sold	(1 438)	(33 845)
Net loss from fair value adjustments to investment properties	(3 601)	(40)
Net loss on derivative financial instrument	(140)	(360)
Foreign exchange loss	(6)	(5)
Net loss on available-for-sale financial assets	-	(4)
Other expenses	(435)	(1 122)
Total expenses	(7 558)	(43 097)
Profit/(loss) for the period	(2 260)	4 873
Weighted average number of shares in the quarter (in thousands)	60 450	60 450
Earnings per share	(0,037)	0,081

5.2 Financial Results per Share

Results per share (EUR '000)	31.12.2009	31.12.2008
Earnings	(2 260)	4 873
Earnings per share (EPS)	(0,037)	0,081
Net asset value (NAV)	38 735	42 210
Common shares outstanding	60 450	60 450
NAV per share	0,641	0,698
NAV per share increase / decrease	-8%	-19%
Dividend per share	0,020	0,245
Fair value	0,661	0,943

The Net Asset Value per share (NAV per share) dropped from EUR 0.698 in 2008 to EUR 0.639 in 2009 which represents a fall by 8.8% YoY. The reported fall in the net asset value resulted both from the reported net loss for 2009 in amount of EUR 2,260 thousand and the set provisions for dividends due in amount of EUR 1,214 thousand.

5.3 Liquidity

The current liquidity ratio of BREF increased to 5.67 in the end of 2009 in comparison with 1.46 in 2008. The reported change we attribute to the higher decrease of the current liabilities than the decrease in current assets. Current liabilities fell 6.12 times to BGN 6,356 thousand in 2009 with respect to BGN 38,881 thousand in 2008, while the reported fall in the current assets was only 1.6 times to BGN 36,070 thousand in 2009 compared to BGN 56,789 thousand in 2008.

The decrease in the current liabilities is in result of the reported fall by 91.8% in the provisions for dividends due to the amount of BGN 2,375 thousand in 2009 in comparison to BGN 28,970 thousand in the previous year, when the latter accounted for a major part of the total current assets.

Despite the favorable increase in the current ratio the rest of the liquidity ratios report a slight deterioration. We attribute that mainly to the higher decrease of the cash & cash equivalents than the decrease of the current liabilities in 2009.

The overall liquidity of BREF in the current year would greatly depend on paying the dividend due for 2009 and the realized rental revenues, as the Fund forecasts slight improvement in the overall liquidity in 2010.

Table 2 – Liquidity ratios for the year ended 2009 and for the year ended 2008.

Liquidity Ratios	31.12.2009	31.12.2008
Current ratio	5,67	1,46
Quick ratio	0,49	0,75
Cash ratio	0,31	0,66

■ Internal Sources of Liquidity

In 2009 Bulgarian Real Estate Fund remains in possession of significant in amount internal sources of liquidity, as the major change in the structure of the current assets with respect to 2008 was the increased share of the investment properties held for sale and trading on the expense of the cash & cash equivalents.

○ Current Assets

Table 3A – BREF's current assets for the year ended 2009 and the year ended 2008.

Liquidity sources (EUR '000)	31.12.2009	% Share	31.12.2008	% Share
Current Assets				
Investment property held for sale	16,861	91.4%	14,185	48.9%
Amounts due from brokers	93	0.5%	9	0.0%
Trade and interest receivables	465	2.5%	1,697	5.8%
Cash and cash equivalents	1,024	5.6%	13,145	45.3%
Total Current Assets	18,442	100%	29,036	100%

The main share of the current assets or 91% in 2009 with comparison to 49% in 2008 took the investment properties held for sale and trading, which comprised of the balance sheet value of the office part of KBC and the Sequoia II apartment house. The reported increase in this account we attribute to the additional investments in capital expenditures on the office part of KBC, as well as the construction of additional open space parking lot, located behind the office building.

The second source of liquidity in terms of relative share of the current assets was the cash & cash equivalents accounts which amounted to EUR 1,024 thousand in 2009. The latter decreased in result of the distributed dividend for 2009 in amount of EUR 14,812 thousand.

Another significant source of liquidity was the "Trade receivables" account which account is net of the set by the Fund provisions for doubtful trade receivables in amount of EUR 402 thousand. The so calculated net value of the "Trade receivables" in amount of EUR 465

thousand which comprised mainly of the remaining receivables on sales of properties, as well as agricultural land rent receivables.

The management of BREF envisages the amount of the current assets to increase gradually with the realized profit from the expected sale of properties and rent of the Fund's properties and to decrease with the distribution of the due dividend for 2009.

○ **Current liabilities**

Table 3B – BREF's current liabilities for the year ended 2009 and for the year ended 2008.

Liquidity sources (EUR '000)	31.12.2009	% Share	31.12.2008	% Share
Current liabilities				
Interest bearing loans	1,081	33%	666	3%
Management and success fee payable	318	10%	45	0%
Provisions for dividends due	1,214	37%	14,812	75%
Trade and other payables	637	20%	4,305	22%
Total Current Liabilities	3,250	100%	19,828	100%

The largest share (37%) of the current liabilities represented the provisions for dividends due set by the Fund for 2009 in amount of EUR 1,214 thousand. The provisions for dividend due represent 90% of the adjusted financial result, determined according to art. 10 of the Special Purpose Companies ACT. The amount set for distribution for 2009 would be voted at the General Assembly of the company in 2010.

The next share 33% in the current liabilities structure took the "Interest bearing loans" account, which amount rose by EUR 415 thousand, or 62% in 2009 to reach EUR 1,081 thousand. We attribute the reported increase to the utilization of the investment loan in amount of EUR 5,000,000 in the beginning of October 2009 and the reported in this account amount of its current part.

The account "Trade and other liabilities" decreased its relative share of the current liabilities to 20% in 2009 and amounted to EUR 637 thousand. The latter comprised mostly from the retentions for quality of constructions works in amount of EUR 374 thousand, provisions on constructions works in amount of EUR 175 thousand, trade liabilities in amount of 49 thousand as well as other liabilities.

Management and success fees payable to the managing company report a 7 fold increase in 2009 to EUR 318 thousand in comparison with EUR 45 thousand a year ago. The significant reported increase in this account for 2009 is in result of liabilities on management and success fees incurred in 2009, which are to be paid off in 2010.

In the next reporting period BREF expects the value of the current liabilities to decrease mainly due to the distribution of the due dividend for 2009.

■ **External Sources of Liquidity**

The external sources of liquidity are the common stock and the two investment loans, which are explained in details in point 5.4 of the Capital resources.

Considering the fact that BREF has frozen its investment intentions until the market conditions stabilize, the company has at its disposal sufficient financial resource which would completely cover its needs. The Fund will focus its activity on the management of its yielding projects such as the office part of KBC, Mr. Bricolage retail stores and Agricultural land.

5.4 Capital Resources

In 2009 the long term capital of the Fund, equity and borrowings amounted to EUR 48,253 thousand, marking an increase of 1% or EUR 348 thousand compared to a year ago. We attribute the increase in the long term capital to the utilized investment loan in amount of EUR 5,000,000 in the fourth quarter of 2009, and the decrease we attribute the reported loss

for 2009 in amount of EUR 2,260 thousand and the provisions for dividends due for 2009 in amount of EUR 1,214 thousand.

In result of the utilization of the investment loan towards the end of 2009 the structure of the long term capital went through significant changes with respect to the previous year, as the relative share of the borrowed funds rose from 11.9% in 2008 to 19.7% in 2009. The allocation between equity and long-term liabilities is shown in the figure 2 below.

Figure 2: Allocation between equity and external financing

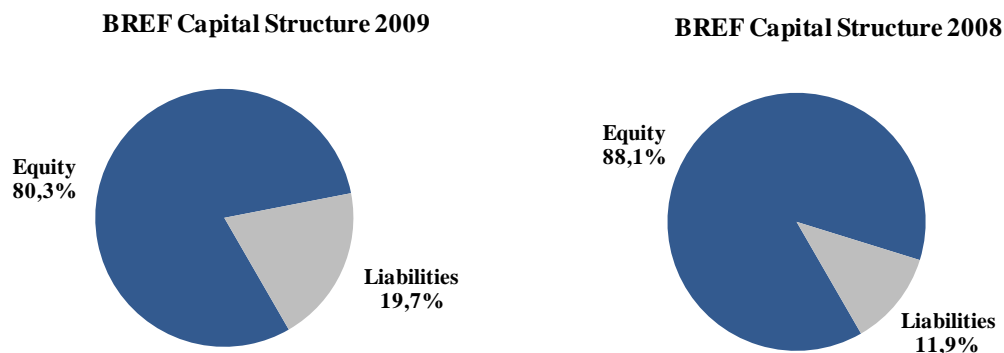


Table 4 –Leverage ratios

Leverage ratios	31.12.2009	31.12.2008
Debt-to-Equity	0,34	0,61
Non-Current Assets-to-Equity ratio	0,86	0,92
Long-term Debt-to-Long-term Asset ratio	0,28	0,15

* the derivative fin. instrument is not considered in calculating the ratios for 2009.

■ Equity

BREF's equity in the end of 2009 amounted to EUR 38,735 thousand which represented a fall of 8.2% in comparison to 2008. The reported decrease was in result of the realized net loss for the year in amount EUR 2,260 thousand and the provisions for dividends due for 2009 in amount of EUR 1,214 thousand.

Table 5 – Total Equity for the year ended 2009 and for the year ended 2008.

Equity (EUR '000)	31.12.2009	31.12.2008
Share capital	30 907	30 907
Share premium	5 016	5 016
Retained earnings	2 812	6 287
Total equity	38 735	42 210

■ Long-term debt

The Fund paid all due payments on the investment loan utilized for the acquisition of the „Mr. Bricolage” in 2009.

On 8.10.2009 BREF utilized an investment loan from Eurobank EFG Bulgaria in amount of EUR 5,000,000. The loan was used to re-finance the construction costs of Kambanite Business Center project which has been financed only with equity.

The loan parameters are as follows:

- Loan amount: EUR 5,000,000
- Term: 9 years

- Collateral: Mortgage on the Kambanite Business Center office building; Pledge on all current and future rent receivables from renting the building.

■ Capital expenditures in 2010

The investment strategy of the Fund for the year to come will be exclusively directed towards the operational management of the yielding projects as well as their improvement. BREF does not envisage starting any new investment projects until more favorable market conditions arise.

For financing the current and the future investment projects the Fund will utilize the current cash available and if needed will use loan financing.

5.5 Asset structure

In 2009 the total asset amount of the Fund reported a fall of 23.7% or 16,234 thousand and amounted to EUR 51,877 thousand. The reported lower value of the total assets of BREF resulted mainly due to the significantly decreased cash & cash equivalents in 2009 and the lower value of the total properties.

Table 6 – BREF’s asset structure for the year ended 2009 and for the year ended 2008.

Asset structure (EUR '000)	31.12.2008	% share	31.12.2008	% share
Non-current assets incl.	33 435	64%	38 983	57%
- total properties	33 140	64%	38 967	57%
Current assets incl.	18 442	36%	29 036	43%
- Interest and rental income receivable	465	1%	1 697	2,5%
- Investment property held for sale	16 861	33%	14 185	20,9%
- cash and cash equivalents	1 024	2%	13 145	19%
Total assets	51 877	100%	68 019	100%

As indicated in the table above in the end of 2009 the total asset structure changed as the share of the current assets decreased with 7% YoY. The reported decrease we attribute to the lower value of the cash & cash equivalents which subsequently fell due to the distributed dividend for 2008 in amount of EUR 14,812 thousand.

The total properties account also fell in 2009 to EUR 33,140 thousand with respect to EUR 38,967 thousand a year ago, which we attribute to the reported in net losses from fair value adjustments in 2009, the sale of properties during the year, as well as the relocated balance sheet value of the plot on which the additional open space parking lot was built from total properties account to investment property held for sale, part of the current assets.

The Investment property held for sale account rose 19% to EUR 16,861 thousand in 2009 with respect to EUR 14,185 thousand a year ago. We attribute the latter to the additional investments in KBC office building in 2009.

The trade receivables account reported a 72.6% fall to EUR 465 thousand in 2009 as the decrease derived from the received final payment from the buyer of the retail part of the KBC project in 2009, which payment was bound with the receipt of permission of use of the office building.

BREF envisages the total assets to increase in 2010 with the proceeds from sale of assets and rent and to decrease with the distribution of the due dividend for 2009.

5.6 Results of Continuing Operations

■ Revenues

BREF’s operations in 2009 were mainly targeted towards the management of the yielding projects as well as sales of agricultural properties and apartments units in the Sequoia II Apartment house project. The Fund’s revenues reported a fall by 89% in 2009 to EUR 5,297 thousand compared to EUR 47,970 thousand a year ago. We attribute the fall in

revenues to relatively limited disposals and subsequent proceeds from sales in 2009 with respect to 2008 when BREF realized record high proceeds from sale of properties in amount of EUR 45,889 thousand.

BREF Revenue (EUR '000)	2009	% share	2008	% share
Proceeds from sale of properties	1,751	33%	45,889	96%
Rental income	2,256	43%	1,306	3%
Interest income	738	14%	704	1%
Other income	552	10%	57	0.1%
Total revenue	5,297	11%	47,970	100%

o **Rental Income**

Rental income in amount of EUR 2,256 thousand accounted for approximately a half (43%) of the total revenues in 2009. The rental income reported a 72% uplift in comparison with 2008 mostly deriving from letting 65% of the office areas of KBC and also from the higher rental income on the agricultural properties during the year.

o **Proceeds from Sale of Investment Property**

The proceeds from sale of investment property amounted to EUR 1,751 thousand in 2009 and accounted for 33% of the total revenues with respect to a share of 96% a year ago. This account comprised of sale of agricultural properties in amount of EUR 1,638 thousand and sale of four apartment units in Sequoia II Apartment house in amount of EUR 103 thousand.

o **Interest Income**

The next share in the revenues structure was taken by the interest income which increased by 5% in 2009 to EUR 738 thousand. We attribute the increase to the large amount of cash & cash equivalents in 2009 which were held at bank deposits, which offered extremely favorable interest rates, until the distribution of the dividend due for 2008.

o **Other Income**

Other income account rose to EUR 552 thousand in 2009 and represented a 10% share in the revenue structure of BREF. In its main part this account comprised of the reversed doubtful trade receivable allowance set on the final payment receivable of the buyer of the retail part of KBC, which was received in full amount upon the receipt of permission of use of the office part of KBC in April 2009.

■ **Expenses**

Total expenses amounted to EUR 7,558 thousand in 2009 which represented a decrease by 82.5% with respect to 2008. The reported fall was in result of the significantly lower carrying amount of properties sold in the year – EUR 1,438 thousand in comparison with EUR 33,845 thousand in 2008 deriving directly from the lower amount of realized sales. For the same reason expenses related to sale of properties also report significant decrease in the past year.

BREF Expenses (EUR '000)	2009	% share	2008	% share
Interest expense	(470)	6.2%	(1,227)	2.8%
Management and success fees	(797)	10.5%	(3,660)	8.5%
Agent fees and local taxes and fees on	(248)	3.3%	(2,370)	5.5%
Operating expenses relating with	(389)	5.1%	(430)	1.0%
Directors' fees and Board expenses	(20)	0.3%	(21)	0.0%
Employee benefit costs	(14)	0.2%	(13)	0.0%
Carrying amount of properties sold	(1,438)	19.0%	(33,845)	78.5%
Net loss from fair value adjustments to investment properties	(3,601)	47.6%	(40)	0.1%
Net loss on derivative financial instrument	(140)	1.9%	(360)	0.8%
Foreign exchange loss	(6)	0.1%	(5)	0.0%
Net loss on available-for-sale financial	-	-	(4)	0.0%
Other expenses	(435)	5.8%	(1,122)	2.6%
Total expenses	(7,558)	100%	(43,097)	100%

o **Net Loss from fair value adjustment of investment properties**

A major share in the total expenses structure in 2009, or 48% represented the realized losses from fair value adjustments to investment properties in amount of EUR 3,601 thousand. The latter derive from adjustments in the balance sheet value of the properties in the segments of the real estate market which were most severely affected by the recession in Bulgaria.

o **Carrying amount of investment properties sold**

The next share in the expenses structure 19% was taken by the carrying amount of properties sold in amount of EUR 1,438 thousand which comprised of the balance sheet value of the sold agricultural properties and the four apartments in Sequoia II Apartment house.

o **Management and success fees**

Management and success fees fell to EUR 797 thousand in 2009 from EUR 3,660 thousand in 2008 or 78% YoY. We attribute the reported change to the significantly lower realized sales of properties with respect to 2008 and the deriving from the sale process success fees paid to the servicing company.

o **Net loss on derivative financial instrument**

The loss on the derivative financial instrument resulted from the increase in the reported in the balance sheet negative net present value (NPV) of the interest swap associated with the investment loan utilized for financing "Mr. Bricolage" project, as the reason for that was the low EURIBOR rate which held in the entire past 2009.

o **Other expenses**

The other accounts with larger share in the expenses structure were other expenses account amounting to EUR 435 thousand, operating expense related to properties amounting to EUR 389 thousand and agent commissions and local taxes and fees related to sale of properties in amount of EUR 248 thousand.

■ **Financial Result**

Financial Result (EUR '000)	2009	2008
Revenues	5,297	47,970
Expences	(7,558)	(43,097)
Profit / (Loss) for the period	(2,260)	4,873

BREF realized net loss in amount of EUR 2,260 thousand in 2009. The main reason for the incurred result was the significant net loss from fair value adjustments on the investment properties in the past year. Despite that, should the net loss from fair value on the investment properties be disregarded, BREF would have reported a net profit of EUR 1,341 thousand from its operations in 2009.

5.7 Estimates and Assumptions

In preparing the financial statements, management is required to make estimates and assumptions that affect reported income, expenses, assets, liabilities and disclosure of contingent assets and liabilities. Use of available information and application of judgment are inherent in the formation of estimates. Actual results in the future could differ from such estimates and the differences may be material to the financial statements. These estimates are reviewed on a regular basis and if a change is needed, it is accounted in the period the changes become known.

5.8 Risks

The income, the profit and the value of the assets owned by the Fund might be unfavourably affected by various factors, specific for the investments in real estate sector: changes in the regulation plan, development exposure, market oversupply, increase in construction costs and interest rates, etc. The mentioned risks could lead to the Fund's inability to generate sufficient income to cover its expenses. This would have a negative impact upon the Fund's profit and respectively upon the dividends paid out to its stockholders, as well as upon the market price of the Fund shares.

The Fund has investment guidelines that set out its overall business strategies, its tolerance for risk and its general risk management philosophy and has established processes to monitor and control investment transactions in a timely and accurate manner. These guidelines are reviewed annually by the Board of Directors to ensure that the Fund's guidelines are adhered to.

■ Risks related to the projects' development

The Fund investment strategy envisages that a considerable part of the raised equity and external financing is invested in real estate construction. Therefore, it runs a risk, related to the ability of the hired construction companies to complete the projects on time and within the set budget, also in compliance with the architectural plans, construction blueprints and regulations. Whether the delay in the execution is due to the contractor's fault or not, this could lead to abrogation of preliminary contracts for sale or rent and/or payment of damages. In order to minimize this risk BREF's management thoroughly investigates the construction companies considered as potential contractors and concludes contracts only with companies that are able to perform the assignment properly, on time and on budget. In addition, the Fund constantly monitors the ongoing construction and completion works. Currently this risk is minimized as there are no construction works in progress and the Fund invests only in improvements in already developed projects.

■ Market risk

The Fund's investment properties are susceptible to market price risk arising from uncertainties about future prices and rental levels.

○ Reduction in market prices

The properties owned by BREF are exposed to a certain market risk tied to the unclear future development in the real estate sector in Bulgaria. This could lead to the realization of lower purchase price of the properties in the portfolio as well as lower liquidity. The management of the Fund considers that BREF has exposure to such a risk, considering the significant share of development properties in its portfolio. Despite the considerable exposure to the market risk the properties of the Fund are well-diversified in different segments and regions in Bulgaria and thus offer more options for favourable return in the future.

○ Reduction in rental levels

The profits of the Fund from lease of real estate depend on the rental rates in the respective real estate market sub-sectors. Any reduction in rental rates would negatively impact the profits of

the Fund and respectively, rise in the rental rates would boost profits. This would affect negatively, respectively positively, the cash dividend paid by the Fund, all other things being equal. The Fund aims at decreasing the risk of potential rental rates reduction by entering into long-term lease agreements, as well as through investment diversification in various market sub-sectors.

■ **Financing resources**

Since the amount required by the investment intentions of the Fund, exceeds its available capital, an additional amount of non-equity funds would have to be borrowed. The respective risk is related to the uncertainty whether the Fund would be able to draw the needed amount, either through bank loans, or through bond issuance. Presently, however, the Fund is financially stable and has a very good reputation among the Bulgarian banks, which are interested in cooperating with BREF.

■ **Interest rates**

The Fund is exposed to risks associated with the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. The management of the Fund believes that the fair value of the cash and long term interest bearing loan does not differ significantly from their current carrying amounts. The Fund's exposure to the risk of changes in market interest relates primarily to the Fund's long term debt obligation, which is with floating interest rates. To manage this, the Fund enters into interest rate swap agreement, in which agrees to exchange monthly, the difference between fixed and variable rate interest amounts calculated by reference to an agreed-upon notional principal amount.

6 Important events occurred after the balance sheet date

The following notable events occurred after the balance sheet date - 31 December 2009:

- There were no significant events that could affect the market price of the Fund after the balance sheet date – 31.12.2009

7 Share performance

With regards to the Bulgarian stock market, the past 2009 could be described as a year of gradual stabilization with any clear fundamental factors supporting that. Analyzed in quarters the past year was positive for the most shares traded on the BSE in the first and third quarters and negative in the second and fourth quarters.

After reaching a respective bottom in February 2009 and in parallel with the early recovery indicators coming from the US in the end of the first quarter, the shares traded on the BSE surged with some of them exceeding the 100% mark. The trend was stopped by the followed inconsistent economic data from the US and the EU zone as well as the official data of Bulgaria entering the recession in the second quarter. The third quarter was marked by another rally on the local stock market spurred by the official news stating that Germany and France got out of the recession backed by further stable news from the US. The upward trend cooled off in the fourth quarter due to the lack of any positive internal economic indicators. The disturbing news about the record indebtedness of neighboring Greece lead to a sudden significant drop on the Bulgarian market to further misbalance the fragile trust in the local economy.

Summarized trading details for the period 31st December 2008 – 31st December 2009:

- Opening Price – BGN 0.73 (5 January 2009)
- Closing Price – BGN 0.37 (28 December 2009)
- Highest Price – BGN 0.85 (21 January 2009)
- Lowest Price – BGN 0.30 (5 August 2009)
- Total Trading Volume – 24,106,049 shares
- Turnover for the period – EUR 5,948,094
- Weighted average price – BGN 0.58
- Market Capitalisation (31.12.2009) – EUR 11,435,809

Figure 3 – Financial results per share

