

# “Bulgarian Real Estate Fund”

## Second Quarter Summary Report



30 July 2009

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## 1 Overview of the Fund

Bulgarian Real Estate Fund /BREF/ is a close-ended real estate investment vehicle, headquartered in the capital of Bulgaria - Sofia. Incorporated in October 2004, it is among the first established Bulgarian REITs. The Fund was licensed by the FSC of Bulgaria in March 2005, and was listed on the Bulgarian Stock Exchange – Sofia (BSE) in April 2005.

As a real estate investment trust, BREF specializes in strategic property acquisitions and invests exclusively in high-performing real estates, in all property sectors across Bulgaria.

The principle investment objective of the Fund is to provide its shareholders with a combination of current income and long-term appreciation of the common stock value. To achieve the set targets, BREF implemented a strategy to acquire, develop, manage and lease properties that have superb potential for cash-flow growth and capital appreciation. With these objectives in BREF constructed a portfolio of 9 active projects spread across all property sectors in Bulgaria, thus creating a well diversified and low risk portfolio.

Today, BREF is among the largest REITs in Bulgaria in terms of market capitalization and holds an excellent reputation among local banks, property owners and the investment community, a sure sign for its competent management and publicly approved results.

Stock Exchange	Ticker Symbol	Market Capitalization (30.06.2009)	Shares Outstanding
<b>Bulgarian Stock Exchange Sofia</b>	<b>5BU (BREF)</b>	<b>EUR 24,726,075</b>	<b>60,450,000</b>

## 2 Portfolio

BREF contains numerous projects ranging in size, activity and geographical location. Our well diversified portfolio may provide some protection from the ups and downs of individual properties such as occupancy rates, defaults on rents, and downturns in industry sectors or local markets.

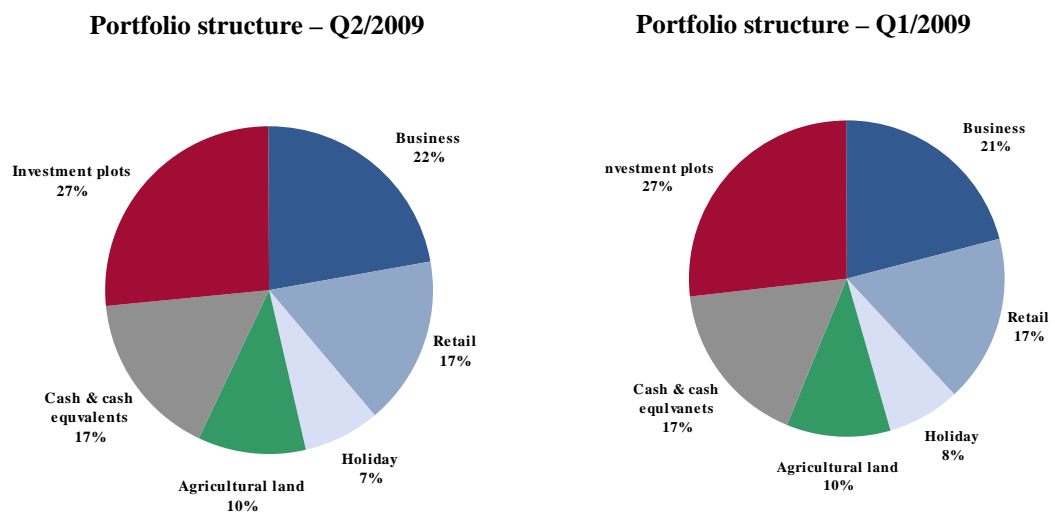
### 2.1 Portfolio Structure

In the second quarter of 2009 the structure of BREF's portfolio remained relatively unchanged as the small changes were in result of the payments made by the Fund for construction works on Kambanite Business Center completed in the previous quarter. In regards to the other projects BREF did not make any significant payments affecting the portfolio structure. The key highlights during the last three months were as follows:

- Completion of the construction works on Kambanite Business Center (KBC) and receipt of permission for use of the building.
- Delivery of the office premises to Hewlett-Packard Global Delivery Bulgaria Center, which initiated the rent period according to the signed agreement.
- Receipt of the final payment from the buyer of the retail part of KBC, which was bound with the receipt of the permission of use of the office building.

The projects managed by BREF in the end of June 2009 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 directed towards execution of the construction alterations in the office part of Kambanite Business Center project and management of the operational projects. The table below presents the projects segmented in accordance to their degree of completion:

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

Project	Stage of the project	Size of project	Invested till 30.06.2009	Future investments
<b>Operational projects</b>				
"Mr. Bricolage" - sale and leaseback	Operational management	10,172	10,172	0
Agricultural land	leasing in progress	6,268	6,268	0
Kambanite Business Centre	renting out / for sale	13,549	13,441	108
<b>Projects in progress</b>				
Seaside Holiday Village	suspended	9,203	2,308	0
Apartment house "Sequoia2" - Borovetz	for sale	2,227	2,227	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>57,551</b>	<b>50,547</b>	<b>108</b>

From the above-mentioned projects "Mr. Bricolage" – sale and leaseback and Agricultural land and Kambanite Business Center are currently operational. 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. The last four projects are in a stage of changing the regulation status and BREF envisages for part of them this process to be completed during this year.

## 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". Situated in Varna and Sofia, the stores are two of the best performing branches of the retail chain in the country.

### 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% the acquisition cost with an investment bank loan from Bulgarian Post Bank in the amount of EUR 7 million.

There were no delays from the tenant in terms of rent payments in the last quarter. 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.

## 2.3 Project – Agricultural land

In the last quarter the Fund acquired additional 23 dka of agricultural land with which in the end of June 2009 the total owned agricultural land plots reached 40,510 dka. Despite the newly acquired agricultural properties the total owned land decreased with respect to the previous quarter – 40,633 dka, due to the written off agricultural properties which were a subject to legal disputes.

The total invested amount in the project since its start in 2005 was EUR 6,268 thousand, with the average purchase price, including the acquisition costs being EUR 154 per dka. Most of the purchased properties are III and IV category, with an average size of each plot of about 10-15 dka.

BREF did not rent out additional agricultural properties during the period under review. In the end of June 2009 the share of the rented properties as percent of the total owned equalled to 78.3%. The average rent price for the current year was EUR 8.33 per dka.

**Project parameters:**

<b>Agricultural land</b>	
Aquired area	40,510 dka
Investment	EUR 6.3 M
Acquisition price per dka	EUR 154
Leased area	31,719 dka
% of leased area	78.3%
Average annual rent per dka	EUR 8.33

## 2.4 Project – Kambanite Business Centre

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 including 2,825 sq.m. of underground parking, which are already sold and are not an ownership of BREF anymore.

In April 2009 the construction works of the building were completed and KBC was officially granted with permission of use, after which the facility management of the building itself entrusted to “Alfa Property Management” Jsc. The construction works still in-progress during the second quarter of 2009 were mainly related to improvements of the building requested by its anchor tenant Hewlett-Packard Global Delivery Bulgaria Center.

In the second quarter of 2009 BREF continued to hold negotiations with other potential tenants for the remaining available office areas in the building and with some of them the negotiations were in a final stage. In addition on the General Shareholders’ Meeting of BREF, held on 29<sup>th</sup> of June 2009, it was voted to move the headquarters of the Fund in Kambanite Business Center. The managing company of BREF, “REM” Ltd., will also become part of the tenants in the building. Until the end of June 2009 more than 55% of the building has been rented out to Hewlett-Packard Global Delivery Bulgaria Center.

**Project parameters:**

<b>Kambanite Business Centre</b>	
Plot area:	8,796 sq.m
Total built-up area:	31,331 sq.m
Office space and common area	16,266 sq.m
Retail and underground parking	15,065 sq.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, 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
Total built-up area	17,963 sq.m
Total projected investment	EUR 9.2 M
Invested until March 2009	EUR 2.3 M

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

In the end of 2007 BREF became an owner of “Sequoia 2” apartment house located in the oldest ski resort in Bulgaria – Borovetz. The value of the entire building with total built-up area of 3527.3 sq.m. was EUR 2,227,304.9 (EUR 631 per 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. The distance to the main road Borovetz-Plovdiv is only 30 meters.

The Fund has sold one apartment so far, as in the last quarter BREF did not realize new sales in the apartment building.

**Project parameters:**

Apartment house "Sequoia 2" - Borovetz	
Plot area	512 sq.m
Total built-up area	3,527 sq.m
Acquisition price per sq.m.	EUR 616.8 per sq.m.
Investment	EUR 2.175.5 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 Vidin	
Total plots' area	86,008 sq.m
Purchase price	EUR 0.3 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	change of regulation

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

Another project with good potential for future development are 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 make the project attractive for future development.

In 2009 BREF expects the regulation procedure to be completed, 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

## 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. The total acquisition price was EUR 19,312 thousand or EUR 243.67 per sq.m excluding the acquisition costs. After in the third quarter of 2008 the Fund finalized the preliminary agreed sale of 9 properties with a total size of 31,908 sq.m, for the amount of EUR 17,500,000 or EUR 548 per 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 at the end of 2008	47,345 sq.m
Purchase price	EUR 11.75 M
Status	rezoning procedure



### 3 Financial Highlights Q2 / 2009.

#### 3.1 Summarized Financial Statements

The following financial statements are created in full compliance with the Financial Supervision Commission standards and resemble the audited 2008 annual financial statements.

*Table 2 – Balance sheet until 30<sup>th</sup> of June 2009 and 31<sup>st</sup> of March 2009*

(All amounts in EUR '000)	30.06.2009	31.03.2009
<b>ASSETS</b>		
<b>Non-current Assets</b>		
Investment property	37,711	38,985
Plant and equipment	17	15
Intangible assets	1	4
<b>Total Non-current Assets</b>	<b>37,729</b>	<b>39,004</b>
<b>Current Assets</b>		
Trade receivable	871	1,646
VAT receivable	634	409
Amounts due from brokers	52	70
Investment property held for sale	15,908	15,104
Cash and cash equivalents	10,003	10,107
Other current assets	292	56
<b>Total Current Assets</b>	<b>27,760</b>	<b>27,392</b>
<b>TOTAL ASSETS</b>	<b>65,489</b>	<b>66,396</b>
<b>EQUITY AND LIABILITIES</b>		
<b>Equity</b>		
Share capital	30,907	30,907
Share premium	5,016	5,016
Retained earnings	5,543	6,292
<b>Total equity</b>	<b>41,466</b>	<b>42,215</b>
<b>Non-current liabilities</b>		
Interest bearing loan	5,394	5,565
Derivative financial instrument	310	367
<b>Total Non-current liabilities</b>	<b>5,704</b>	<b>5,932</b>
<b>Current liabilities</b>		
Current part of non-current liabilities	676	674
Payables to management company	1,292	1,386
Trade payables	1,522	1,361
Provisions for dividends due	14,812	14,812
Other current liabilities	16	16
<b>Total Current liabilities</b>	<b>18,318</b>	<b>18,249</b>
<b>Total liabilities</b>	<b>24,023</b>	<b>24,181</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>65,489</b>	<b>66,396</b>

**Table 3 – P&L statement until 30<sup>th</sup> of June 2009 and 31<sup>st</sup> of March 2009**

<b>(All amounts in EUR '000)</b>	<b>Q2 - 2009</b>	<b>Q1 - 2009</b>
Income from sale of assets	-	-
Rental income	577	343
Revenue from interest and other financial revenues	197	203
Other Income	555	6
<b>Total Revenue</b>	<b>1,328</b>	<b>552</b>
Interest expense	(82)	(88)
Management and success fees	(322)	(161)
Materials expense	(157)	(38)
BOD and employees salaries expense	(9)	(13)
Loss on financial instruments		(132)
Value of sold assets		-
Net loss from value adjustments	(1,378)	-
Other expenses	(128)	(114)
<b>Total expenses</b>	<b>(2,077)</b>	<b>(547)</b>
<b>Profit/(loss) for the period</b>	<b>(749)</b>	<b>5</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>(0.012)</b>	<b>0.000</b>

## 3.2 Liquidity

In the second quarter of 2009 the overall liquidity of BREF remained relatively unchanged with respect to the previous quarter, as the reported uplift of the current ratio we attribute to the faster increase of the current assets as compared to the increase of the current liabilities during the period.

Among the other liquidity ratios, the quick ratio reported a slight decrease as compared to the first quarter mainly as a result of the fall of cash & cash equivalents and trade receivables which drop was on account of the increase of the investment properties held for sale.

The liquidity of the Fund for the second half of the year will depend mostly on the payment of the dividends due for 2008, the rent proceeds from the yielding assets in the portfolio as well as the receipt of the remaining payment for sale the Office building – G.M. Dimitrov project.

*Table 4 – Liquidity ratios until 30<sup>th</sup> of June 2009.*

Liquidity Ratios	30.06.2009	31.03.2009
Current ratio	1.52	1.50
Quick ratio	0.65	0.67
Cash ratio	0.55	0.55

### ■ Internal sources of liquidity

BREF continued to have significant internal sources of liquidity at its disposal in the second quarter of 2009.

#### ○ Short-term (current) assets

*Table 5A – Sources of liquidity until 30<sup>th</sup> of June 2009.*

Liquidity sources	30.06.2009	31.03.2009
<b>Current Assets</b>		
Trade receivable	871	1,646
VAT receivable	634	409
Amounts due from brokers	52	70
Investment property held for sale	15,908	15,104
Cash and cash equivalents	10,003	10,107
Other current assets	292	56
<b>Total Current Assets</b>	<b>27,760</b>	<b>27,392</b>

Similar to the first quarter the main share 57.3% of the current assets was taken by the “Investment property held for sale” 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 second largest source of liquidity 36.3% was the “Cash and cash equivalents” account, in amount of EUR 10,003 thousand. The reported decrease as compared with the previous period we attribute to the invested funds in construction of KBC office part. Despite the latter, the registered decline in the cash & cash equivalents was only 2% or EUR 104 thousand in result of the received final payment from the buyer of the retail part of the KBC which was bound with the receipt of permission of use of the office building.

The next significant source of liquidity was the “Trade receivables” account in amount of EUR 871 thousand. This account is comprised of the amounts receivable according to the agreement for sale of the Office building – G.M. Dimitrov project, which amount is net of doubtful debt allowances set by BREF. The rent receivables from agricultural land and accrued interest on the deposits of the Fund were also included in this account.

The remaining significant components of the current assets structure was the “VAT receivable” account in amount of EUR 634 thousand.

The management of BREF expects the amount of the current assets to decrease with the payment of the due dividend to the shareholders for the fiscal 2008, as the mentioned decrease in current assets is limited by the rent proceeds on the let properties and the proceeds from collected trade receivables.

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

*Table 5B – Sources of liquidity until 30<sup>th</sup> of June 2009.*

Liquidity sources	30.06.2009	31.03.2009
<b>Current liabilities</b>		
VAT payable	-	-
Current part of non-current liabilities	676	674
Payables to management company	1,292	1,386
Trade payables	1,522	1,361
Provisions for dividends due	14,812	14,812
Other current liabilities	16	16
<b>TOTAL CURRENT LIABILITIES</b>	<b>18,318</b>	<b>18,249</b>

The most significant share 80.9% of the current liabilities in the end of June 2009 took the “Provisions for dividends due” account in amount of EUR 14,812 thousand. During the past quarter the due dividend for 2008 in amount of EUR 14,811,647 was officially voted at the General Shareholders’ Meeting which took place on 29.06.2009.

The next share of 8.3% in the current liabilities structure was taken by the account “Trade payables” which was mainly formed by: the liabilities of the Fund on the terminated contract for sale of the office part of KBC in 2008 in amount of EUR 1,200 thousand and other trade payables associated with the activity of the Fund.

“Payables to the management company” account reported a 7% downfall to EUR 1,292 thousand in comparison with the previous quarter, as this is mainly due to the partially paid retentions for quality to the construction companies of BREF’s developments. The account still comprised of the remaining retentions for quality of the construction companies, the servicing and success fees due to the Management Company, as well as other liabilities.

The “Current part of non-current liabilities” remained at relatively similar value to the one reported in the previous quarter of 2009. The account was formed alone by the current part of the non-current liabilities on the investment loan utilized for the acquisition of the Mr. Bricolage stores.

In the next reporting periods BREF expects the current liabilities to fall in result of the payment of the due dividend by the Fund for 2008 and payment of the accrued liabilities to the Management Company for the retentions for quality of the construction companies.

■ **External sources of liquidity**

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

Considering the significant amount of available funds in the end of June 2009, BREF has sufficient resources at its disposal to meet its operational needs for the rest of the year. In the rest of 2009 the Fund will concentrate its activity predominantly in managing the yielding projects of the Fund, such as Kambanite Business Center – office part, Mr. Bricolage stores and the rented part of the agricultural land owned by the Fund. Investments in the pipeline projects will be suspended until the market conditions change.

### 3.3 Capital resources

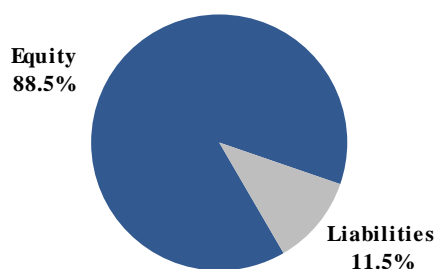
In the end of June 2009 the long term capital of the Fund, equity and external financing, amounted to EUR 46,860 thousand, which represented a decrease of EUR 919 or 2% in

comparison with the first quarter of 2009. The reason for that decrease we attribute to the reported loss for the period in amount of EUR 749 thousand as well as to the lower value of the non-current liabilities resulting from the paid-off principal during the quarter.

The structure of the long-term capital remained similar in comparison with the structure reported in the previous quarter which regarding current economic conditions pre-determines the stability of the Fund and facilitates the utilization of additional external financing. The allocation between equity and long-term liabilities is shown in the Figure 2 below.

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

**BREF Long-term Capital Structure (Q2/09)**



**Table 6 – Leverage ratios**

Leverage ratios	30.06.2009	31.03.2009
Debt-to-Equity	0.58	0.57
Non-Current Assets-to-Equity ratio	0.91	0.92
Long-term-Debt-to-Non-Current-Asset ratio	0.14	0.14

## ■ Equity

During the last quarter the equity of the Fund reported a fall of EUR 749 thousand to reach EUR 41,466 thousand. We attribute the decrease solely to the realized net loss for the period in amount of EUR 749 thousand.

**Table 7 – Total equity for Q2/2009 and Q1/2009.**

Equity (in thousands)	30.06.2009	31.03.2009
Share capital	30,907	30,907
Share premium	5,016	5,016
Retained earnings	5,543	6,292
<b>Total equity</b>	<b>41,466</b>	<b>42,215</b>

## ■ External financing

BREF did not acquire any new loans during the quarter under review; in the period the Fund paid all due payments on the investment loan utilized for the acquisition of the „Mr. Bricolage” project.

## ■ Capital expenses during the next periods under review

The investment strategy of the Fund for the rest of 2009 will be exclusively directed towards the operational management of the completed projects. The Fund does not plan to initiate new investment projects until the stabilization of the current market conditions in the country.

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 loan financing.

### 3.4 Assets structure

The total assets amount of BREF reported a slight decrease of 1.4% to EUR 65,489 thousand in comparison with the first quarter of 2009. The reported fall was mainly as a result of the net loss from fair value adjustments reported in the decreased value of the “total property” account, part of the non-current assets structure.

*Table 8 – Asset structure*

Asset structure (thousand EUR)	30.06.2009	% share	31.03.2009	% share
<b>Non-current assets incl.</b>	<b>37,729</b>	<b>58%</b>	<b>39,004</b>	<b>59%</b>
- total property	37,711	58%	38,985	59%
<b>Current assets incl.</b>	<b>27,760</b>	<b>42%</b>	<b>27,392</b>	<b>41%</b>
- VAT receivable	634	1.0%	409	0.6%
- trade receivable	871	1.3%	1,646	2.5%
- investment property held for sale	15,908	24.3%	15,104	23%
- cash and cash equivalents	10,003	15%	10,107	15%
<b>TOTAL ASSETS</b>	<b>65,489</b>	<b>100%</b>	<b>66,396</b>	<b>100%</b>

The most significant alteration in the current asset structure was reported in the “Trade receivable” account, which decreased as a relative share of the total assets due to the receipt of the final payment from the buyer of the retail part of KBC project, which according to the agreement was to be paid in parallel with the receipt of permission of use of the building.

The “Investment property held for sale” account incremented its relative share in the second quarter of 2009 on the account of the decrease of “Cash & cash equivalents” as a result of the invested funds in construction works of the office part of the KBC project.

The remaining accounts in the total asset structure remained with relatively unchanged shares with respect to the previous quarter as only the “VAT receivable” account registered an uplift.

BREF’s management forecasts a significant fall of the total assets and more specifically to the Cash & cash equivalents due to the payment of the due dividend for 2008, which fall is to be limited from the cash proceeds from the VAT receivable, receipt of the trade payables from clients as well as proceeds from sale of assets.

### 3.5 Financial Results

BREF’s activity in the second quarter of 2009 was mainly directed towards the management of the Kambanite Business Center project.

#### ■ Revenue from operations

The total revenues reported a 2.4 fold growth for the past quarter to EUR 1,328 thousand. We attribute the growth to the rent income from the rented out office areas in KBC to Hewlett-Packard Global Delivery Bulgaria Center as well as to the reported revenue of the final payment for the retail part of KBC which the Fund had set as doubtful debt allowance provision in the last year.

*Table 9 – Revenues for the 2<sup>nd</sup> quarter of 2009 and 1<sup>st</sup> quarter of 2009.*

BREF Revenue (in thousand EUR)	Q2 - 2009	Q1 - 2009
Revenue from interest and other financial revenues	197	203
Rental revenue	577	343
Income from sale of assets	-	-
Other Income	555	6
<b>Total revenue</b>	<b>1,328</b>	<b>552</b>

The total revenues for the second quarter of 2009 amounted to EUR 1,328 thousand, which in the most part, EUR 577 thousand (43%), comprised of the realized rent income from the “Mr. Bricolage” stores in amount of EUR 270 thousand, rent income from the office premises

in the KBC building – EUR 230 thousand and income from rent of agricultural land in amount of EUR 77 thousand.

Other account representing significant share 14.8% of the revenues structure was the “Revenues from interest and other financial revenues” which amounted to EUR 197 thousand. The reported amount remained relatively unchanged with respect to the first quarter of 2009 – EUR 203 thousand.

The “Other income” account as already mentioned above was made up of the reported revenue of the final payment for the retail part of KBC which the Fund had set a doubtful debt allowance provision for in the last year.

BREF expects an increase of the total revenues in the next reporting periods due to the forecasted increase in rental revenue resulting from the rent proceeds from the office part of the KBC building, as well as to the additionally rented out agricultural properties and sale of properties.

## ■ Expenses from operations

The total expenses in the past quarter marked a 3.8 fold uplift to EUR 2,077 thousand. The main reason behind the significant increase was the realized net losses from fair value adjustments on the owned investment properties, which was in direct correlation with the overall drop of the Bulgarian real estate market.

**Table 10** – Realized expenses for the 2<sup>nd</sup> quarter of 2009 and the 1<sup>st</sup> quarter of 2009.

BREF Expenses (in thousand EUR)	Q2 - 2009	Q1 - 2009
Interest expense	(82)	(88)
Management and success fees	(322)	(161)
BOD and employees salaries expense	(9)	(13)
Materials expense	(157)	(38)
Value of sold assets	-	-
Net loss from value adjustments	(1,378)	-
Loss on financial instruments	-	(132)
Other expenses	(128)	(114)
<b>Total expenses</b>	<b>(2,077)</b>	<b>(547)</b>

The main component in the expenses structure for the past quarter represented the net loss from fair value adjustments in amount of EUR 1,378 thousand. As a result of the overall decrease in the value of the real estate in Bulgaria, BREF’s investment properties also sustained negative revaluations and subsequent drop in value.

“Management and success fees” account in amount of EUR 322 thousand also represented a large share (15.5%) of the total expenses structure. This account comprised of the management and success fees paid to the Management Company for the quarter under review. We attribute the increase to the reported success fee on the received final payment for the retail part of KBC during the quarter.

The “Materials expense” account in amount of EUR 157 thousand comprised mainly of expenses for finishing works of the Office building – G.M. Dimitrov agreed on with the buyer before the actual transfer of ownership, which expenses were to be paid on the account of the BREF. The rest of the account consisted of current operational expenses on the yielding properties of BREF.

The next component of the total expenses was the “Other expenses” account which comprised of property taxes and other fees on the owned properties due for the past quarter as well as other operating expenses of BREF.



“Interest expense” account in amount of EUR 82 thousand reported a 7 % fall in comparison with EUR 88 thousand in the first quarter of 2009. The realized decrease we attribute to the fact that a larger part of the paid annuity payments of the Fund on the senior loan will be formed by principal and a lesser part by interest.

### ■ Financial result

BREF realized a net loss of EUR 749 thousand for the second quarter of 2009 in comparison with a net profit of EUR 5 thousand in the prior reporting period. The realized net loss we attribute entirely to the large net loss from property revaluations in the second quarter of 2009. Should the net loss from property revaluations, which is a non-cash expense, is disregarded, the Fund would have realized a net profit of EUR 634 thousand for the period under review.

The management of BREF expects the net profit in the next reporting periods to increase as a direct result of the realized rent proceeds from the KBC office part.

*Table 11 – Financial result for the 2<sup>nd</sup> quarter of 2009 and the 1<sup>st</sup> quarter of 2009.*

Financial Result	Q2 - 2009	Q1 - 2009
Revenues	1,328	552
Expences	(2,077)	(547)
<b>Net loss for the period</b>	<b>(749)</b>	<b>5</b>

### ■ Financial results per share

The NAV per share of the Fund decreased with 1.77% to reach EUR 0.686 per share in the second quarter of 2009. We attribute the decrease in the NAV to the realized net loss for the second quarter of 2009 in amount of EUR 749 thousand. BREF’s management forecasts an increase in the NAV in the coming reporting periods as a result of the expected rent proceeds from the office part of the KBC project.

*Table 12 – Financial results per share*

Results per share (EUR '000)	Q2 - 2009	Q1 - 2009
Earnings	(749)	5
Earnings per share (EPS)	(0.012)	0.000
Net asset value (NAV)	41,466	42,215
Commom shares outstanding	60,450	60,450
NAV per share	0.686	0.698
NAV per share increase / decrease	-1.77%	0.01%

### ■ Potential risks in the next quarter

The main risks which reflect and will continue to reflect 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 Commision 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.

## 4 Share performance

The stock rally observed in the beginning of 2009 which affected most shares on the Bulgarian Stock Exchange was halted in the second quarter by the shaky fundamental data coming from the U.S. and the EU, investor insecurity and last but not the least the announced data by the Bulgarian Statistical Institute (NSI) of a 3.5% GDP drop for the first quarter of 2009.

Despite the negative data the BGREIT index, which BREF is a part of climbed slightly by a 0.7% for the quarter as BREF shares reported a flat period finishing at exactly the same level where they started in the end of the first quarter. The shares of BREF are among the most liquid ones of the REIT companies included in the BGREIT index. The average weighted share price decreased from BGN 1.03 in the end of March 2009 to BGN 0.85 in the end of June 2009.

Summarized trading details for the 52 week period - 30<sup>th</sup> June 2008 – 30<sup>th</sup> June 2009:

- Opening Price – BGN 1.66 (1 July 2008)
- Closing Price – BGN 0.80 (30 June 2009)
- Highest Price – BGN 1.66 (1 July 2008)
- Lowest Price – BGN 0.62 (20 November 2008)
- Total Trading Volume – 15,145,055 shares
- Turnover for the period – EUR 12,670,469
- Weighted average price – BGN 0.85
- Market Capitalisation (30.06.2009) – EUR 24,726,075

*Figure 3 – Financial results per share*

