

“Bulgarian Real Estate Fund”

Fourth Quarter Summary Report



31 December 2007

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1 Overview of the Fund

The Bulgarian Real Estate Fund /BREF/ is an open-ended a 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 10 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, which is a sure sign for its competent management and publicly approved results.

Stock Exchange	Ticker Symbol	Market Capitalization (21.12.2007)	Shares Outstanding
Bulgarian Stock Exchange Sofia	BREF	EUR 64,543,442	60,450,000

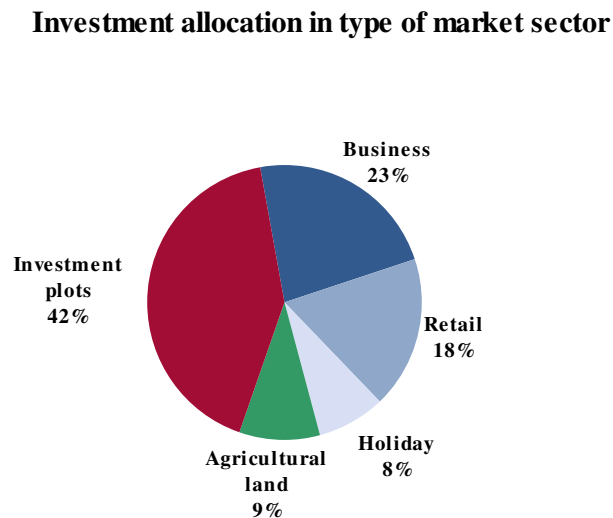
2 Portfolio

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 result of the high investment activity of the Fund, the project portfolio increased to EUR 57.09 million at the end of the fourth quarter from EUR 52.9 million at the end of the third quarter of 2007. One of the reasons for this increase was the acquisition of the rest of the apartment house “Sequoia 2” in November 2007, in result of which BREF is already a full owner of the property. The continuing construction of the two office buildings in Sofia was the other factor influencing the portfolio increase. The total invested funds in those projects during the last quarter equals EUR 2,397,036. With the above investments the active projects managed and developed by the Fund add up to 10, all of which are allocated in main real estate market sectors.

Figure 1: Investment allocation in types of market sector



The Fund’s last quarter activity developed in two main directions: purchase of new properties and development of the current projects. The table below presents the projects which are segmented in accordance to their degree of completeness:

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

Project	Stage of the project	Size of project	Invested till 31.12.2007	Future investments
Completed projects				
"Mr. Bricolage" - sale and leaseback	Operational management	10,109	10,109	0
Agricultural land	leasing in progress	5,624	5,402	222
Projects in progress				
Kambanite Business Centre	under construction	20,452	10,012	10,440
Office building - G.M. Dimitrov	under construction	7,823	3,036	4,787
Seaside Holiday Village	design approval pending	8,999	2,308	6,691
Apartment house "Sequoia2" - Borovetz	permission to use	2,227	2,227	0
Pipeline projects				
Investment plots near Veliko Tarnovo*	change of regulation	261	261	n.a
Investment plots near Vidin*	change of regulation	301	301	n.a
Investment plots in Sofia - Ring road*	change of regulation	3,432	3,432	n.a
Investment plots in Sofia - Mladost IV*	change of regulation	20,003	20,003	n.a
Total		79,231	57,092	22,140

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

Two of the above-mentioned projects have already been completed and are currently operational. Although the Agricultural land project is still active, new investments are primarily made with the aim of re-grouping the currently owned land pieces. The next group consists of four projects in progress, which time period spreads from the design to final development of the future buildings. Kambanite Business Centre might also be considered as partially completed because the Fund already signed a preliminary contract for the sale of the retail areas. Three payments in total of EUR 2,230,000, subject of the above mentioned agreement have already been received by the Fund. The rest of the projects in the table above are in stage of changing the regulation of the land. Their realization is envisaged in 2008.

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

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

The total rent amount for both buildings is EUR 90,147, which totals up to EUR 1,081,764 fixed revenue on a yearly basis for the next 10 years.

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

Project parameters:

"Mr.Bricolage" - sale and leaseback	Varna Store	Sofia Store	Total
Plot area:	12,184 sq.m.	15,174 sq.m.	27,358 sq.m.
Total built-up area:	5,375 sq.m	7,610 sq.m.	12,985 sq.m.
Purchase amount:	EUR 4 M	EUR 6 M	EUR 10 M
Acquired in:	August 2006	November 2006	-
Monthly rent:	EUR 36,060	EUR 54,087	EUR 90,147
Rental agreement start:	August 17th, 2006	November 15th, 2006	-

2.3 Project – Agricultural land

During the fourth quarter BREF acquired new 51.21 dka of agricultural land and at the same time sold 44.99 dka of the already owned land. After the latter acquisitions the Fund is in possession of 36,625.84 dka of agricultural land, with total invested funds of more than

EUR 5.4 million since the start of the project in 2005. The average property acquisition price, including all related costs is EUR 147.45 per dka. Most of the purchased properties are III and IV category, with an average size of each plot of about 10-12 dka.

After the expiration of the rent contracts on some of the owned agricultural properties in the fourth quarter, the total amount of rented land plots decreased to 18,406.6 dka. As a percentage 50.26% of the owned agricultural land was rented by the end of the year. Nevertheless, the average rent price increased from EUR 6.67 to EUR 7.58 per dka per year in the end of 2007. BREF continues to invest in new agricultural land properties, although the aim of this project almost entirely shifts from property acquisition to leasing the owned land pieces to farmers.

Project parameters:

Agricultural land	
Acquired area	36,625 dka
Investment	EUR 5.40 M
Acquisition price per dka	EUR 147.4
Leased area	18,407 dka
% of leased area	50.26%
Average annual rent per dka	EUR 7.58

2.4 Project – Kambanite Business Centre

Kambanite Business Centre is a large-scale development project for construction of a mixed-use building, offering class ‘A’ office and retail space.

The construction works of the building continued in the last quarter with the fifth floor being almost finished, leaving two floors to be built in order to accomplish the shell stage construction. The total investment in construction up to 31 of December, 2007 was EUR 5,325,876.

In April 2007, BREF concluded a preliminary agreement for the sale at the stage of shell of KBC’s retail part. The area of the sold retail part is 15,065 sq.m, which comprises of showrooms and an underground parking. The negotiated sale price was EUR 11,150,000, payable in six installments, the third of which in amount of EUR 1,115,000 was received during the quarter under review. The Fund expects to receive the next installment in March 2008. The ownership on the property will be officially transferred after the completion of the shell construction in April 2008, when the transaction will be reported in the P&L statement.

Project parameters:

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

2.5 Project – Office Building - G.M. Dimitrov

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

The shell construction works continued during the last quarter. Until the end of the year the slab of the first office floor was entirely completed and the vertical elements of the second office

floor were being executed. The total construction costs of this project until 31st of December 2007 were about EUR 1,296,150.

Project parameters:

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

2.6 Project – Seaside Holiday Village

Seaside Holiday Village is a project for the development of a second-home type holiday village on the southern Black Sea coast. The complex will include 291 apartments with a selection of studio, 2-bedroom and 3-bedroom luxury apartments and one-family houses, all for sale. The wealth of the on-site facilities will include two spacious swimming pools, situated amidst professionally landscaped grounds, two restaurants, as well as retail and entertainment area.

The Fund already has the preliminary design prepared, and has submitted it for approval in the local municipality.

At the end of the fourth quarter of 2007 BREF has paid the last installment payment to the architectural studio for the development of the preliminary design of the holiday village. After the approval of the preliminary design by the local civil administration, the Fund will develop the technical and the entire construction design of the Seaside holiday project.

Project parameters:

Seaside Holiday Village	
Plot area	28,758 sq.m
Total built-up area	17,963 sq.m
Total investment	EUR 8.9 M
Invested until December 2007	EUR 2.3 M

2.7 Project – Apartment house “Sequoia 2” - Borovetz

At the end of 2007 the Fund is already a full owner of the apartment house “Sequoia 2” located in the oldest ski resort in Bulgaria – Borovetz. The acquisition of the building was realized during the last quarter, after BREF bought the rest 60% of it for the amount of EUR 1,230,385. The total price of the entire building with a built-up area of 3,527.3 sq.m, including acquisition costs, taxes and fees is EUR 2,227,305 or 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.

BREF initiated negotiations with real estate agents for the sale of the entire apartment house after the permission of use was granted during the last quarter. As of the end of 2007, several real estate agents were directly responsible for the sale of the apartment house. The Fund envisages selling the building within the next two years.

Project parameters:

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

2.8 Project – Investment plots near Veliko Turnovo

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

The procedure of changing the land status was almost completed until the end of 2007, and the expectations of the management are for it to be fully finished in the beginning of 2008. The Fund will start the development of the preliminary design of the retail and warehouse areas immediately after the land status is changed.

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

Project parameters:

Investment plots near Veliko Turnovo	
Total plots' area	203,248 sq.m
Purchase price	EUR 0.26 M
Status	change of regulation

2.9 Project – Investment plots near Vidin

BREF is an owner of a 86-decare non-regulated land plot, located near the city of Vidin. The city is an important transportation centre in north-western Bulgaria and is bounded by the state borders - Danube River to the north and by Serbia state border to the west.

Similar to the investment land plots near Veliko Tarnovo project, the plot is not regulated and the Fund has already filed documents for the rezoning procedure. Any last period activity is entirely tied to aiding the municipal administration with whatever needed to streamline the rezoning procedure.

Project parameters:

Investment plots near Vidin	
Total plots' area	86,008 sq.m
Purchase price	EUR 0.3 M
Status	change of regulation

2.10 Project – Investment plots in Sofia – Ring Road

In the end of 2006 BREF acquired six neighbouring, not regulated land plots with total size of 17,237 sq.m., located in the outskirts of Sofia. The acquisition price was EUR 3.43 million equalling to EUR 199 per sq.m. on average.

The land plots are located right behind another BREF's property – Kampanite Business Centre site, near Sofia's Ring Road. The area is featured by good transport infrastructure of the Ring Road, proximity to the developing Residential Park Sofia and Business Park Sofia and majority of other commercial sites. All these make the land plots very suitable for development of a one-end residential complex, offering cosiness and high living standards.

Like the above described projects, the Fund has already started the rezoning procedure and has submitted the regulation documents for approval in the urban administration of Sofia.

Project parameters:

Investment plots in Sofia - Ring Road	
Total plots' area	17,237 sq.m
Purchase price	EUR 3.43 M
Status	change of regulation

2.11 Project – Investment plots in Sofia - Mladost IV

After acquiring 21 properties with a total area of 79,523 sq.m., located in Mladost IV residential area, Sofia, situated next to Business Park Sofia, the Fund initiated their regulation renewal procedure. The exclusive position of the properties allows the development of residential, office and hotel projects once the rezoning procedure is completed.

In the last quarter BREF signed a preliminary agreement for the sale of 9 of the owned properties with a total size of 31,908 sq.m. for the amount of EUR 17,500,000, (EUR 549 per sq.m), payable in several instalments. The first instalment amounting to EUR 2,000,000 was already received in the last quarter, with the second one expected to be paid in January 2008. After the sale, the Fund will be in possession of 12 properties with a total size of 47,345 sq.m., which regulation status is to be renewed within the next year.

Project parameters:

Investment plots in Sofia - Mladost IV	
Total plots' area	79,253 sq.m
Purchase price	EUR 19.88 M
Status	change of regulation

3 Financial Highlights Q4 / 2007.

3.1 Summarized Financial Statements

The following financial statements are created in full compliance with the Financial Supervision Commission standards and resemble the audited 2006 annual financial statements.

Table 2 – Balance sheet until 31st of December 2007, 30th of September 2007 and 31st of December 2006

(All amounts in EUR '000)	31.12.2007	30.09.2007	31.12.2006
ASSETS			
Non-current Assets			
Investment and development property	60,399	54,388	28,976
Property acquisition costs	1,681	3,997	490
Available for sale investments	138	15	15
Intangible assets	1	1	2
Furniture and fixtures	8	9	6
Total Non-current Assets	62,226	58,410	29,489
Current Assets			
Accounts receivable	239	156	46
Value added tax receivable	727	727	909
Prepayments	98	248	670
Other current assets	46	52	0
KBC property value	10,898	0	0
Cash and cash equivalents	11,419	10,622	14,310
Deferred expenses	99	89	63
Total Current Assets	23,526	11,895	15,998
TOTAL ASSETS	85,752	70,305	45,487
EQUITY AND LIABILITIES			
Equity			
Share capital	30,908	30,908	30,908
Share premium	5,013	5,013	5,013
Retained earnings	17,188	6,429	2,092
Total equity	53,108	42,349	38,012
Non-current liabilities			
Interest bearing loan	26,425	24,645	6,987
Derivative financial instrument	0	0	10
Total Non-current liabilities	26,425	24,645	6,997
Current liabilities			
Current debt and accrued interest	620	1,072	3
Current part of non-current liabilities	656	459	0
Payables to management company	686	204	142
Accounts payable	0	0	91
Property sale prepayments received	4,230	1,115	0
Salaries payable	2	2	0
Provisions for dividends due	0	227	227
Other liabilities	26	232	15
Total Current liabilities	6,219	3,310	478
Total liabilities	32,644	27,955	7,475
TOTAL EQUITY AND LIABILITIES	85,752	70,305	45,487

Table 3 – P&L statement for the 3rd and 4th quarter and with capitalization from the start of 2007.

(All amounts in EUR '000)	Q4 - 2007	Q3 - 2007	Capitalised 01- 12mth / 2007
Revenue from interest and other financial revenues	141	142	517
Rental income	332	303	1,247
Income from financial instruments	126	0	126
Income from sale of assets	0	0	2,140
Other income	41	0	41
Net gains from fair value adjustments	10,809	4,404	15,213
Total Revenue	11,448	4,849	19,284
Interest expense	(415)	(416)	(1,043)
Materials and external services expense	(235)	(327)	(1,277)
BOD and employees salaries expense	(5)	(5)	(19)
Value of sold assets	0	0	(1,756)
Depreciation expense	(1)	(1)	(2)
Other expenses	(33)	(17)	(92)
Total expenses	(689)	(766)	(4,188)
Profit/(loss) for the period	10,759	4,083	15,096
Weighted average number of shares in the quarter (in thousands)	60,450	60,450	60,450
Earnings per share - basic and dilluted	0.178	0.068	0.250

3.2 Liquidity

Bearing in mind the high investment activity of BREF directed primarily towards the continuing construction of the two office buildings in Sofia, the current ratio of the Fund increased. The incremental change of this ratio was in result mostly due the recording of the “Kambanite Business Center” value as part of the current assets. This accounting adjustment was implemented because of the upcoming installments receivable by the preliminary agreement for the sale of the areas of the “Kambanite Business Center”.

Nevertheless, completely in line with the expectations of the management, the other liquidity ratios drop off in comparison with the ones reported in the third quarter. A main factor of this change was the significant increase in the property sale prepayments received, namely EUR 1,115,000 from the sale of the retail areas of Kambanite Business Centre and EUR 2,000,000 from the sale of 9 properties of the project “Investment plots in Sofia - Mladost IV”. The property sale prepayments were recorded as current liabilities and after the change of ownership of the properties, they will be reported as income in the P&L statement.

As it was already stated in the third quarter report the liquidity of BREF will depend on the proportion of the received funds from the sale of the areas of Kambanite Business Centre and the payments made for the construction of the two office buildings in Sofia.

Table 4 – Liquidity ratios until 30th December 2007.

Liquidity Ratios	31.12.2007	30.09.2007	31.12.2006
Current ratio	3.78	3.59	37.00
Quick ratio	3.77	3.57	33.37
Cash ratio	1.84	3.21	29.97

■ Internal sources of liquidity

Similar to the third quarter, BREF continues to have at its disposal significant in terms of size internal sources of liquidity. A detailed breakdown and analysis can be seen in the table below and the following paragraphs.

○ Short-term (current) assets

Table 5A – Sources of liquidity until 31st of December 2007.

Liquidity sources	EUR ('000)	EUR ('000)
Current Assets		
Accounts receivable from clients and	239	156
Value added tax receivable	727	727
Prepayments	98	248
Other current assets	46	52
KBC property value	10,898	
Cash and cash equivalents	11,419	10,622
Deferred expenses	99	89
Total Current Assets	23,526	11,895

The largest share, around 48.5% of the short-term assets represents the cash and cash equivalents available in the bank accounts of the Fund. The source of these funds is the equity of the Fund, the received prepayments of property sold and the obtained a short-term loan from Bulgarian Post Bank amounting to EUR 2.9 million. As of the end of 2007, BREF has utilized only 0.58 million of the loan.

Another large source of liquidity, as it is shown in the table above, is the value of the “Kambanite Business Centre” project which will be recorded as current asset, because of the fact that the installments are to be received in the next year.

The other main part of the current asset structure are VAT tax receivables, 727 thousand, which remain similar in comparison with the third quarter and also the calculated revenues from the leased agricultural land recorded in the form of accounts receivable from clients and suppliers. The prepayments mainly constitute of the made payments for the construction of the two office buildings in Sofia during the year.

The management of BREF expects the sum of the current assets to drop down in parallel with the realization of the envisaged investment plans of the Fund in the coming months.

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

Table 5B – Sources of liquidity until 31st of December 2007.

Liquidity sources	EUR ('000)	EUR ('000)
Current liabilities		
Current debt and accrued interest	620	1,072
Payables to management company	686	204
Current part of non-current liabilities	656	459
Property sale prepayments received	4,230	1,115
Provisions for dividends due	0	227
Other liabilities	2	234
TOTAL CURRENT LIABILITIES	6,194	3,310

Similar to the data in the third quarter report, in the end of 2007, the highest share or 68% of the current liabilities take the received prepayments of the sale of the retail part of the Kambanite Business Centre project. However during the fourth quarter the received prepayments have also increased due the first installment paid according to preliminary agreement of the sale of 9 properties of “Investment plots in Sofia - Mladost IV” project. The received prepayments will increase after each future payment from the side of the buyers and will be reported as income when the ownership of the property is completely transferred to the new owners.

The next component of the current liabilities under attention is the Current debt and accrued interest. Mainly influenced by the fact that BREF has paid off the EUR 1,000,000 short-term loan utilized for the acquisition of 40% of the apartment house in Borovetz, the amount of this account halved in this quarter and represents a 10% share of the current liabilities in comparison with a share of 38% in the third quarter. After the repayment of the loan this account constitutes of the utilized amount of the short-term loan obtained in the last quarter and the accrued interest on all external financing used from the Fund.

Another source of liabilities in amount of EUR 656,000 is the current part of the principal payments of the long-term loans. Here, the increasing liabilities are influenced by the growing current part of the principal on the loan used for the acquisition of “Mr.Bricolage” stores in 2006 as well as the newly utilized financing for the investment in the rest of the apartment house in Borovetz. The management of BREF envisages this account to keep on rising in the future with the expiration of the grace period of the other loans obtained by the Fund.

The other large unit in the liabilities side is the Payables to the management company which amounts to EUR 686,000. In its larger part this sum represents the liabilities tied to expenses with the realization of the investment projects of the Fund and more specifically the construction of the Kambanite Business Centre and the office building on “G.M. Dimitrov” blvd.

In the last quarter, BREF has distributed all due dividend from the previous year to its shareholders. The sum was in the amount of EUR 227,000.

■ **External sources of liquidity**

The external sources of liquidity are the common stock and the four bank loans, which are thoroughly explained in point 3.3 of the Capital resources.

Considering the additional external financing obtained at the end of 2007, BREF has a significant financial resource, which is expected to fully cover next year's liquidity needs. In case that projection changes, the Fund has full readiness to obtain the necessary financing either through a capital raise or through external financing from local and foreign bank institutions.

3.3 Capital resources

The capital structure of the Fund, equity and borrowed capital, reached EUR 79,5 million which was an uplift of 8% in comparison to the previous quarter where this amount was EUR 68,5 million. The source of this change came mainly from the new loan obtained from Bulgarian Post Bank and the significant appreciation of the assets. The equity amount still represents a larger share of the capital structure, which pre-determines the stability of the Fund and the ability to easily obtain additional external financing. On the other hand the high share of liabilities gives basis for a favorable leverage, which results in better return on equity. During the period under review the debt-to-equity ratio decreased to 0.50 in comparison with 0.84 in the third quarter of 2007. This change can be explained by the large revaluations, part of the equity in the form of retained earnings. Nevertheless the high leverage reported in previous periods was still kept because the equity increase was not affected by any form of capital raise but rather retained earnings from capital gains on the owned properties of the Fund.

Figure 2: Allocation between equity and external financing

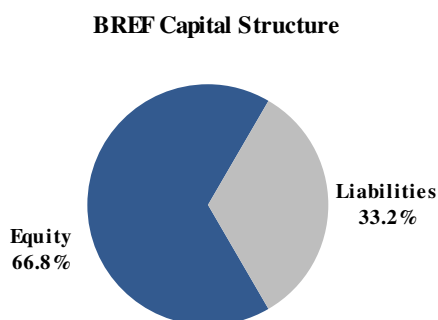


Table 6 – Leverage ratios

Leverage ratios	31.12.2007	till 30.09.07
Debt-to-Equity	0.50	0.84
Non-Current Assets-to-Equity ratio	1.17	1.38
Debt-to-Asset ratio	0.38	0.40

■ Equity

During the last quarter, and following the incremental trend from the beginning of the year, the equity of the Fund registers its largest increase of EUR 10,758 thousand to reach the amount of EUR 53,108 at the end of 2007. This figure is solely a product of the assets appreciation which positively affected the financial result for the quarter. As you can see from the table below the Total Equity makes a significant 40% uplift from the beginning of the year in result of the increased retained earnings.

Table 7 – Total Equity until December 2007, September 2007 and December 2006.

Equity (in thousands)	31.12.2007	30.09.2007	31.12.2006
Share capital	30,908	30,908	30,908
Share premium	5,013	5,013	5,013
Retained earnings	17,188	6,429	2,092
Total equity	53,108	42,349	38,012

■ External financing

The Fund obtained two loans from the Bulgarian Post Bank during the last quarter, one of which was acquired in order to optimize the funding of BREF's operational activity. The other, as already mentioned in the report, was utilized to finance the acquisition of the apartment house in Borovetz and to refinance the short-term loan borrowed to acquire the first 40% of the same building. In total, the cumulative external financing obtained by the Fund increased to reach an amount of more than EUR 27 million in the end of 2007. The parameters of the loans are as follows:

1) Short-term loan obtained to finance the current construction costs of the two office buildings in Sofia.

- Loan amount – EUR 2,900,000
- Interest – 3M EURIBOR + 1.65%
- Maturity – 3rd of March 2008
- Collateral – properties of the Fund
- Utilized Amount as of 31st of December 2007 – EUR 580,429

2) Long-term loan obtained to finance the acquisition of the apartment house in Borovetz and to refinance the credit obtained to purchase the first 40% of the same building.

- Loan amount – EUR 2,000,000
- Interest – 3M EURIBOR + 1.65%
- Maturity – 21st of December 2012
- Collateral – properties of the Fund

■ Capital expenses during the next periods under review

The investment strategy of the Fund is entirely directed towards realization of the current projects in the short-term, so a large part of the funds are to be invested in the two office buildings in Sofia located on the ring road and G.M. Dimitrov blvd. According to our projections the expenses of these two projects in 2008 will be around EUR 10 million.

The Fund envisages utilizing its current capital resources and if there is a necessity to realize a new capital raise or use loan financing for the forthcoming investment projects in 2008. We do expect that with the projects progress and the subsequent increase of the assets, the amount of the liabilities will go up to reach the optimal ratio between equity and liabilities. Our expectations are also in the direction that the cost of liabilities will decrease as the time passes.

3.4 Assets structure

As a result of the high asset revaluations reported during the quarter under review, Total Assets increase with EUR 15,5 million (22%) and reach EUR 85,7 million in the end of 2007.

Table 8 – Asset structure

Asset structure (thousand EUR)	31.12.2007	% share	30.09.2007	% share
Non-current assets incl.	62,226	73%	58,410	83%
- total property	60,399	70%	58,385	83%
Current assets incl.	23,526	27%	11,895	17%
- prepayments	98	0.1%	248	0.4%
- Other current assets	46	0.1%	52	0.1%
- KBC property value	10,898	12.7%	0	0.0%
- cash and cash equivalents	11,419	13%	10,622	15%
TOTAL ASSETS	85,752	100%	70,305	100%

As shown on the table above, the main change in the asset structure is caused by the reporting of the entire value of Kambanite Business Centre as part of the current assets. Even though the reported decrease of the share of the non-current assets in comparison with the third quarter, the total share of properties continues to increase and represented 86% of the Total Assets structure, which affirms the active investment strategy of BREF. In this quarter the registered increase in the cash and cash equivalents derived from the received payments of the sale of the retail areas of Kambanite Business Centre and the sale of the 9 properties of the “Investment plots in Sofia - Mladost IV” project.

In the next periods the management envisages the amount and the share of the total property to go up as part of the Total Assets in the expense of cash and cash equivalents.

3.5 Financial Results

BREF’s main activities during the fourth quarter were the construction of the two office buildings in Sofia, the management of the already leased properties and the purchase of new ones. Compared to the last quarter the Profit is much higher mostly in result of the large revaluations of the Fund assets.

■ Revenue from operations

During the period under review the Total Revenues amount to EUR 11.45 million.

Table 9 – Revenue for the 3rd and 4th quarter and with capitalization from the beginning of 2007.

BREF Revenue (in thousand EUR)	Q4 - 2007	Q3 - 2007	Capitalised from year start
Revenue from interest and other financial revenues	141	142	517
Rental revenue	332	303	1,247
Income from sale of assets	0	0	2,140
Other Income	41	0	41
Income from financial instruments	126	0	126
Net gains from fair value adjustments	10,809	4,404	15,213
Total revenue	11,448	4,849	19,284

The total revenues from the beginning of the year add up to EUR 19.28 million which significantly exceeds the management projections. A main source of the Total Revenues was the large income from asset revaluations in total amount of EUR 15,213 thousand, part of which EUR 10,809 thousand was realized in the last quarter of 2007. The reported revenues from fair value adjustments support the fact that the raised capital was and will be invested primarily in properties with high capital gain potential.

The second place in the revenues structure is taken by the rental revenues, which include the calculated rent for the two Mr. Bricolage stores added with the revenues from rent of agricultural land. As it can be seen from the table above, the rental revenues increased with 10% solely due the increase in the average rent price based on the higher land prices in Bulgaria over the last year.

Revenues from interest and other financial operations deriving from the large amounts in bank deposits were also an essential part of the revenues. However during this quarter the amount of this account kept a stable rate in comparison with the figures in the last quarter. We expect a future down turn in the interest revenues due the decrease of the free cash resources from the active investment strategy of BREF.

■ Expenses from operations

Completely in contrast with the revenues, the expenses decrease on the basis of the reduction in the materials and external services realized in the last quarter.

Table 10 – Realized expenses for the 3rd and 4th quarter of 2007 and with capitalization from the beginning of 2007.

BREF Expenses (in thousand EUR)	Q4 - 2007	Q3 - 2007	Capitalised from year start
Interest expense	(415)	(416)	(1,043)
Materials and external services expense	(235)	(327)	(1,277)
BOD and employees salaries expense	(5)	(5)	(19)
Value of sold assets	0	0	(1,756)
Depreciation expense	(1)	(1)	(2)
Other expenses	(33)	(17)	(92)
Total expenses	(689)	(766)	(4,188)

As you can see from the table above interest expenses due by the Fund represent the main portion (60%) of the Total expenses. The amount remains similar to the one in the third quarter of 2007. The expectations in regards to the interest expenses did not change in this quarter and the management forecasts this amount to continue to follow an upward direction in the future.

The next component in share size, 34%, of the expenses structure are the materials and external services expenses, which decreased for the most part due the high values of this account during the second and third quarter of 2007 in result of the local taxes and fees tied to the acquisition of the properties in Mladost IV. The expectations for these expenses are to remain relatively unchanged for the next period under review.

However, as a conclusion, the Total expenses for the next periods will continue to increase as a result of the current interest expense and other investment related expenses.

■ Financial result

Bulgarian Real Estate Fund realized a 2.5 times increase in the net income at the end of December 2007 in comparison to the end of September 2007. The realized profit of EUR 10.7 million was predominantly formed of the asset revaluations. The realized return on sale of the land plots near Sofia International Airport in April 2007 also contributed for the high result in 2007. BREF expects the net income to continue to increase further in the next periods as a direct result of the sale of Kambanite Business Centre and the 9 investment land plots in Mladost IV. The revenue of these projects is expected to be reported in the P&L statement in the 2nd and 3rd quarter of 2008.

Table 11 – Financial result for the 3rd and 4th quarter of 2007 and with capitalization from the beginning of 2007.

Financial Result	Q4 - 2007	Q3 - 2007	Capitalised from year start
Revenues	11,448	4,849	19,284
Expences	(689)	(766)	(4,188)
Profit for the period	10,759	4,083	15,096

■ Financial results per share

The most indicative factor of BREF's performance in the last quarter is the NAV per share which goes up from EUR 0.70 to EUR 0.87, or an increase of 25%. The favourable uplift in the NAV per share came from the continuing progress of the construction works of the two office buildings in Sofia and the realized gains from asset revaluations. The management expects to see a significantly increase in the Net Asset Value in the coming year, as an effect of the projected completion and exit of the two of the largest projects of the Fund.

Table 12 – Financial results per share

Results per share (EUR)	01.10-31.12.2007	01.07. - 30.09.2007
Earnings ('000)	10,759	4,083
Earnings per share	0.178	0.068
NAV ('000)	53,108	42,349
NAV per share	0.879	0.701

■ **Potential risks in the next quarter**

The principal risks which affect the main activity of BREF are thoroughly discussed in the 2006 Annual Report. Some of the more current risks that might be outlined are delays in payments from land lease lords and suppliers which will accelerate accounts receivable build up and negatively affect the liquidity of the Fund. Another construction related risk is a delay in the construction progress of the Kambanite Business Centre, which will directly influence the payments of the installments which are to be received from the client on a schedule tied to the construction stages. Having adequately pointed those potential risks, BREF's management has taken certain measures to completely minimize and even remove each one of them. In connection to accounts receivable build-up, The Fund conducts a strict collection policy which remains successful so far. In regards to ensuring the timely and quality construction work of Kambanite Business Center, the management company has already deducted a certain percentage of the amount due to the building company.

4 Share performance

BREF has 60,450,000 shares which are traded on the unofficial segment of the Bulgarian Stock Exchange as of 31st of December 2007. During the period October – December 2007, the price and the volume of the shares declined. These short-term fluctuations are in direct correlation with the overall fall of the Bulgarian Stock Market in the last several months, which led to a 10-15% decline of the share price of the most traded companies. Although the general negative trend of the stock market, the shares of the Fund were traded in the range BGN 2.00 – 2.20 with the weighted average price increasing from BGN 1.54 in the third quarter to BGN 1.67 in the fourth quarter.

Summarized trading details for the period 21st December 2006 – 21st December 2007:

- Opening Price – BGN 1.35 (21 December 2006)
- Closing Price – BGN 2.09 (21 December 2007)
- Highest Price – BGN 2.50 (26 September 2007)
- Lowest Price – BGN 1.32 (10 January 2007)
- Total Trading Volume – 17,123,144 shares
- Turnover for the period – EUR 14,777,901
- Weighted average price – BGN 1.69
- Market Capitalisation (21.12.2007) – EUR 64,543,442
- 1 year change – 35%

Figure 3 – Financial results per share

