

“Bulgarian Real Estate Fund”

Fourt Quarter Summary Report



26 February 2015

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1 Overview of the Fund

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

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

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

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

Stock Exchange	Ticker Symbol	Market Capitalization (31.12.2014)	Shares Outstanding
Bulgarian Stock Exchange Sofia	5BU (BREF)	EUR 16,690,101	60,450,000

2 Portfolio

BREF has engaged in numerous projects ranging in size, activity and geographical location. Our 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.

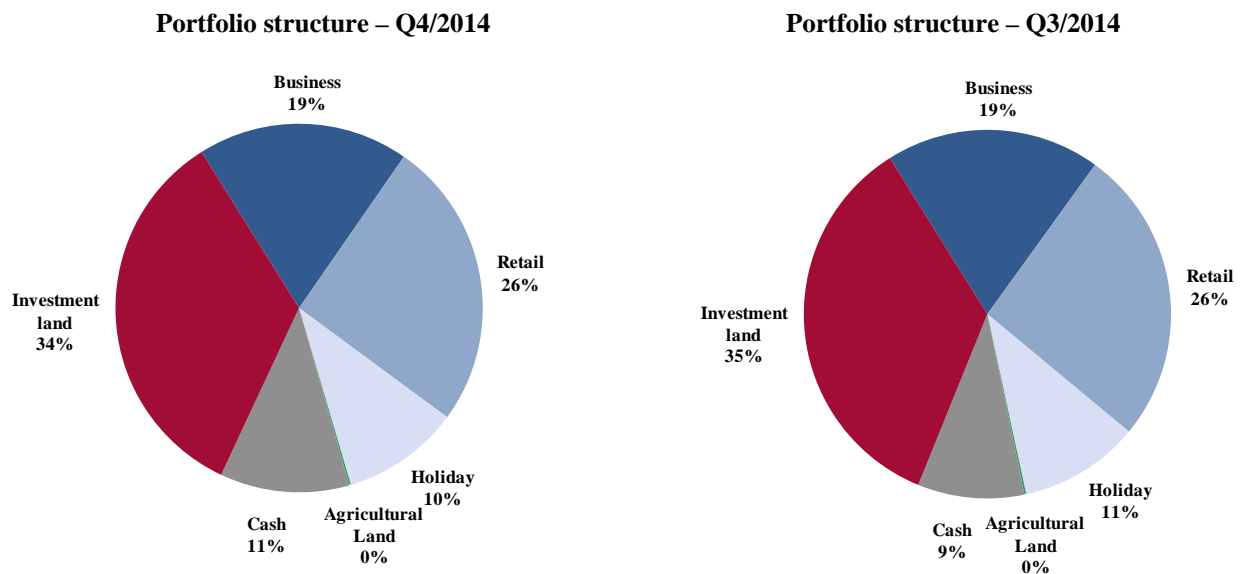
2.1 Portfolio structure

The change in the structure of the portfolio in the last quarter was mainly a result of the change in the available cash. The increase was a result of the VAT refunded under the real estate purchase executed at the end of the past quarter. In addition the portfolio structure was influenced by the capital repairs in Wing B of Building 1 in Business Park Sofia. Following the changes the share of cash increased at the end of the quarter, on account of the various types of properties. Despite the observed change, the largest share, or 34% of the portfolio, was taken up by the investment properties, followed by commercial areas with 26%, and business properties with 19%. The key highlights during the past quarter were as follows:

- Performing capital expenditures in Building 1 in Business Park Sofia;
- Developing the design of the new office building on the ring road plots in Sofia;
- Negotiations for sale of an apartment in apartment house Sequoia 2 – Borovetz;
- Performing current repairs in Mr.Bricolage stores in Varna and Sofia;
- Assessment of investment opportunities on the office and residential markets in Sofia;
- Searching for new investment projects of BREF.

The projects managed by BREF as of the end of December 2014 were nine, diversified in different sectors of the real estate market in Bulgaria.

Figure 1. Investment allocation in types of market sector



The Fund's last quarter activity was mainly directed towards managing four out of the nine projects. The table below presents the projects segmented in accordance to their degree of completion:

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

Project	Stage of the project	Size of project	Invested till 31.12.2014	Future investments
Current projects				
"Mr. Bricolage" - sale and leaseback	Operational management	10,293	10,293	0
Agricultural land	Operational management	60	60	0
Apartment house "Sequoia2" - Borovetz	for sale	1,859	1,859	0
Office building 1 - Business Park Sofia	Operational management	7,601	7,489	112
Investment plots in Sofia - Ring road*	design	2,560	2,560	n.a
Pipeline projects				
Seaside Holiday Village	suspended	9,203	2,319	0
Investment plots near Veliko Tarnovo*	suspended	262	262	n.a
Investment plots near Vidin*	suspended	301	301	n.a
Investment plots in Sofia - Mladost IV*	suspended	10,664	10,672	n.a
Total		42,803	35,815	112

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

From the above-mentioned projects "Mr. Bricolage" – sale and leaseback, Office building 1 in Business Park Sofia, the plots in Sofia on the Ring road and Agricultural land are currently operational, as apartment house "Sequoia 2" is set for sale. The next group consists of projects in the pipeline or suspended and currently there is no progress in their development. Such projects are Seaside Holiday Village in Lozenetz, Investments plots near Veliko Tarnovo and Vidin, and in Sofia in Mladost IV district.

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

In 2006, BREF concluded two "sale and leaseback" deals with the French "Do-It-Yourself" chain "Mr. Bricolage". The two stores are situated in Varna ("Mladost" residential area) and in Sofia ("Tsarigradsko shosse" Blvd.).

Aiming to efficiently utilize the raised capital, in 2006 BREF refinanced 70% of the acquisition cost by means of an investment bank loan from Eurobank Bulgaria at the amount of EUR 7 million. The non-paid principal on the loan as of 31st December 2014 is EUR 1.87 million.

In 2012 both rent agreements were prolonged up to December 2021 and it was introduced a rent indexation with the HICP index of 27 countries for the previous year. In addition since 2013 the tenant undertakes the waste disposal management and the payment of the annual garbage taxes.

Project parameters:

"Mr.Bricolage" - sale and leaseback	Varna Store	Sofia Store	Total
Plot area:	12,184 sq.m.	15,174 sq.m.	27,358 sq.m.
Total built-up area:	5,375 sq.m	7,610 sq.m.	12,985 sq.m.
Purchase amount:	EUR 4 M	EUR 6 M	EUR 10 M
Acquired in:	August 2006	November 2006	-
Indexation	HICP 27 countries	HICP 27 countries	HICP 27 countries
Expiry date of rent agreement	December 31st, 2021	December 31st, 2021	December 31st, 2021

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

During the last quarter BREF performed some capital repairs in Mr.Bricolage stores. Part of HVAC system was replaced in the store in Sofia, as well as current repairs of the gas installation. The tenant paid all amounts due for the rent of both stores in the last quarter. The regular amounts for the insurance of the stores were also paid in time.

2.3 Project – Agricultural Land

The total agricultural land owned by BREF as of the end of the fourth quarter is 416.7 dka, of which 240.6 dka are subject of litigation. The rented out lands are 149.1 dka or 36% from the total land. The average annual rental price is about BGN 40.39 per dka.

Project parameters:

Agricultural land	
Total owned lands	417 dka
Investment	EUR 60,000
Acquisition price per dka	EUR 145

2.4 Project – Apartment house “Sequoia 2” - Borovetz

In 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 3,527.30 sq.m.

The “Sequoia 2” apartment house consists of 36 apartments situated on 5 floors and 9 garages. The Sequoia complex is situated close to a picturesque pine forest within walking distance to the very centre of the resort.

During the past quarter no apartments were sold and as of the end of December 2014 a total of eight apartments had been disposed of. In January 2015 BREF sold one apartment, which increased the sold apartments up to nine. A campaign for selling the rest of the apartments is in progress.

Project parameters:

Apartment house "Sequoia 2" - Borovetz	
Plot area	512 sq.m
Total built-up area	3,527 sq.m
Apartments left for sale	27
Current Investment	EUR 1.86 M

2.5 Project – Office building 1 – Business Park Sofia

In 2014 in two transactions BREF acquired 7,318 square meters of office areas and 68 parking spaces in Building 1 in Business Park Sofia, together with 64.45% shares of the land where the building is erected. All offices are situated in entrance B of the building. The total occupancy rate of the Fund properties is 96.81%. The total price of both transactions is EUR 7.2 million.

In September BREF signed a new agreement with Bulpros Consulting AD for a total of 623 square meters of office areas situated on the 1st floor of Wing B of the building. During the last quarter repair of the new premises was executed and they were handed over to the new tenant on 1 November 2014. Meanwhile the company is holding negotiations to let the only vacant premise in Building 1.

Project parameters:

Building 1 - Buisness Park Sofia	
Built-up area - offices	7,318 sq.m
Parking lots	68
Acquisition price	EUR 7.2 M
Occupancy rate	97%

2.6 Project – Investment plots in Sofia – Ring road

Currently the Fund is owner of a land plot with total area of 10,671 sq.m., situated in the vicinity of Vitosha Mountain, neighboring the already realized KBC project. The area is featured by good transport infrastructure of the Ring Road, proximity to the developing Residential Park Sofia and Business Park Sofia and majority of other commercial sites like Technopolis and IKEA. All these make the project attractive for future development.

During the past year the property had been put into regulation and over 10,555 sq.m. the Fund intends to develop a new multifunctional building offering the best conditions of work to its future tenants. During the past quarter was completed and submitted for approval from the authorities the technical design of the new building and permission for construction is expected within the first quarter of 2015. According to the current design, the total built-up area of the building will be 13,486 square meters, of which the leasable area will be 10,149 square meters, with 192 parking spaces, of which 65 in the underground parking.

Project parameters:

Investment Plots in Sofia - Ring Road	
Total plots' area	10,671 sq.m
Investment	EUR 2.55 M
Status	design
Built-up area over the ground*	10,149 sq.m.

*Preliminary estimation

2.7 Project – Seaside Holiday Village

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

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

Project parameters:

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

2.8 Project – Investment land plots near Veliko Turnovo

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

Currently the activity of the Fund regarding the future development of the property is suspended until more favorable market conditions arise. Meanwhile during the year the Fund rented out for temporary use the property as agricultural land to a local farmer.

Project parameters:

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

2.9 Project – Investment plots near Vidin

In 2006 BREF won in a tender procedure, executed by the Ministry of Defense, a land plot with total size of 86,008 sq.m. 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 newly built bridge over the Danube River.

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

Project parameters:

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

2.10 Project – Investment plots in Sofia – Mladost IV

BREF is owner of 16 land plots situated on Sofia's Ring Road in its crossing point with "Alexander Malinov" Blvd., to the west of Business Park Sofia. After some sales during the past years currently the total area owned by BREF is 41,480 sq.m.

The official regulation plan of the region became effective during the last year; the procedure for its adoption was started by the Sofia Municipality in 2008. According to the new zoning regulation, 25% of the properties owned by the Fund shall be taken away for the purpose of construction of the infrastructure of the area (roads, sewerage, communication ducts, etc.). As a result of this, new properties with new boundaries and construction parameters are formed. After the change in the zoning, BREF owns 5 properties with a total area of 25,131 square meters, most of which are located in mixed multifunctional development zones with the corresponding development parameters.

The future development of those properties will be decided upon examination of the opportunities for their realization and finding of the best conditions for their use.

Project parameters:

Investment Plots, Sofia - Mladost IV district	
Total plots' area	41,480 sq.m
Purchase price	EUR 10.66 M
Status	suspended

3 Financial Highlights Q4/ 2014

3.1 Summarized Financial Statements

The following financial statements are based on non-audited financial statement for the fourth quarter of 2014.

Table 3 – Balance sheet as of 31st December 2014, 30th September 2014, 30th June 2014 and 31st March 2014.

(All amounts in EUR '000)	31.12.2014	30.09.2014	30.06.2014	31.03.2014
ASSETS				
Non-current Assets				
Investment property	32,606	32,757	27,936	27,936
Cost for acquisition of fixed assets	101	97	0	0
Plant and equipment	1	1	1	1
Intangible assets	2	0	0	0
Total Non-current Assets	32,710	32,855	27,937	27,937
Current Assets				
Investment property held for sale	827	1,181	1,211	1,211
VAT receivable	0	946	0	0
Trade receivable	134	270	308	713
Cash and cash equivalents	4,591	3,685	10,214	9,928
Other current assets	1	1	0	0
Deferred expenses	11	10	5	8
Total Current Assets	5,564	6,093	11,738	11,860
TOTAL ASSETS	38,274	38,948	39,675	39,797
EQUITY AND LIABILITIES				
Equity				
Share capital	30,908	30,908	30,908	30,908
Share premium	5,016	5,016	5,016	5,016
Retained earnings	(188)	470	407	259
Total equity	35,735	36,393	36,330	36,182
Non-current liabilities				
Interest bearing loan	959	1,189	1,418	1,642
Derivative financial instrument	81	102	121	141
Total Non-current liabilities	1,040	1,292	1,539	1,783
Current liabilities				
Current part of non-current liabilities	915	902	890	880
VAT payable	13	17	12	36
Payables to management company	52	160	70	67
Payables to the personnel and SIC	4	1	1	2
Provisions for dividends due	0	0	740	740
Trade and Other current liabilities	515	184	92	107
Total Current liabilities	1,499	1,263	1,805	1,832
Total liabilities	2,539	2,555	3,344	3,615
TOTAL EQUITY AND LIABILITIES	38,274	38,948	39,675	39,797

Table 4 – P&L statement by quarters and accumulated since the beginning of 2014

(All amounts in EUR '000)	Q4 - 2014	Q3 - 2014	Q2 - 2014	Q1 - 2014	2014
Income from sale of assets	0	20	0	21	41
Rental income	496	372	352	329	1549
Revenue from interest and other financial revenues	3	7	82	99	190
Other financial income	21	19	19	23	82
Other Income	60	1	0	4	64
Total Revenue	580	419	453	475	1,927
Value of sold assets	0	(29)	0	(25)	(53)
Interest expense	(29)	(32)	(34)	(37)	(131)
Management fees	(137)	(137)	(135)	(135)	(544)
Materials expense	(2)	(2)	(2)	(3)	(7)
BOD and employees salaries expense	(22)	(18)	(18)	(16)	(75)
Loss from fair value adjustments	(828)	-	-	-	(828)
Other expenses	(221)	(140)	(116)	(122)	(598)
Total expenses	(1,238)	(356)	(305)	(337)	(2,236)
Profit/(loss) for the period	(658)	63	148	138	(309)
Weighted average number of shares in the quarter (in thousands)	60,450	60,450	60,450	60,450	60,450
Earnings per share - basic and diluted	(0.011)	0.001	0.002	0.002	(0.005)

3.2 Liquidity

Table 5 – Liquidity ratios as of 31st December 2014, 30th September 2014, 30th June 2014 and 31st March 2014.

Liquidity Ratios	31.12.2014	30.09.2014	30.06.2014	31.03.2014
Current ratio	3.71	4.82	6.50	6.47
Quick ratio	3.16	3.89	5.83	5.81
Cash ratio	3.06	2.92	5.66	5.42

Revaluation of “Sequoia” 2 residential building in Borovets was made at the end of the reporting year, which resulted in reduction of its value. This had an influence on the liquidity ratios, and reduction of the current and quick liquidity ratios was observed at the end of the period. On the other side, the cash liquidity ratio increased as a result of the VAT refunded under the real estate purchase executed at the end of the third quarter. Despite the changes in the liquidity of the Fund, the ratios are still high, the current liquidity standing at 3.71, and the cash - at 3.06. During the next reporting period the liquidity is expected to continue to fall as a result of the starting construction of the new BREF building situated at the Sofia Ring Road.

■ Internal Sources of Liquidity

During the fourth quarter of 2014 the internal sources of liquidity saw decrease in the assets and increase in the liabilities. As mentioned above, the reason for this was the revaluation of the properties held for sale and the increased obligations under the security deposits of the tenants in Building 1 in Business Park Sofia and obligations under performance guarantees.

○ **Short-term (current) assets**

Table 5A – Current assets as of 31st December 2014, 30th September 2014, 30th June 2014 and 31st March 2014.

Liquidity sources	31.12.2014	%	30.09.2014	%	30.06.2014	31.03.2014
Current Assets						
Investment property held for sale	827	14.87%	1,181	19.38%	1,211	1,211
VAT receivable	0	0.00%	946	15.52%	0	0
Trade receivable	134	2.42%	270	4.43%	308	713
Cash and cash equivalents	4,591	82.51%	3,685	60.49%	10,214	9,928
Other current assets	1	0.01%	1	0.01%	0	0
Deferred expenses	11	0.19%	10	0.17%	5	8
Total Current Assets	5,564	100%	6,093	100%	11,738	11,860

With the revaluation of “Sequoia” 2 building in Borovets, the total amount of the short-term assets dropped by 8.68%, reaching EUR 5,564 thousand at period end. The general structure of the assets also changed as the cash share increased from 60.49% to 82.51% as a result of the VAT refund and the reduced amount of investment properties held for sale. After the last changes the cash stands at EUR 4,591 thousand and continues to have the greatest share of the current assets.

The investment properties take up the second biggest share, 14.87%, provided that after the revaluation at the end of the year their value dropped to EUR 827 thousand. The book value of “Sequoia” 2 residential building in Borovets resort is reflected under this item.

The Trade receivables and interest are third with 2.42%. Their value decreased as a result of the paid during the period receivables from rents from Building 1 in Business Park Sofia, and the reduction of interests due under Company deposits. Other major receivables under this item, different from the accrued interest under short-term deposits, were the receivables from rents from agricultural land and receivables under advance payments made under repair agreements from prior periods.

The VAT receivable item, which had a major share in the short-term assets during the previous quarter, was zero, as a result of the VAT refunded by the state under the transaction for acquisition of properties in Building 1, Business Park Sofia.

The cash is expected to drop during the next reporting periods and such change will occur mainly as a result of the funds invested in the construction of the new building of the Fund at the Sofia Ring Road.

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

Table 5B – Current liabilities as of 31st December 2014, 30th September 2014, 30th June 2014 and 31st March 2014

Liquidity sources	31.12.2014	%	30.09.2014	%	30.06.2014	31.03.2014
Current liabilities						
Current part of non-current liabilities	915	61.05%	902	71.43%	890	880
VAT payable	13	0.85%	17	1.34%	12	36
Payables to management company	52	3.48%	160	12.67%	70	67
Payables to the personnel and SIC	4	0.24%	1	0.04%	1	2
Provisions for dividends due	0	0.00%	0	0.00%	740	740
Trade and Other current liabilities	515	34.38%	184	14.53%	92	107
Total Current Liabilities	1,499	100%	1,263	100%	1,805	1,832

During the past quarter the amount of the short-term liabilities increased by 18.66% and from EUR 1,263 thousand at the end of the third quarter they reached EUR 1,499 thousand at the end of the year. The greatest change was observed in the trade obligations, which rose from EUR 184 thousand to EUR 515 thousand. After the increase, the structure of the current liabilities changed, the biggest share of 61.05% being again that of the accrued interest and the current part of the principal of the investment loan utilised by the Fund under Mr.Bricolage Project.

The weak growth in the absolute value of this item was a result of the increasing amount of the monthly payments under the principal of the utilised loan. This amount is expected to increase slowly over the following reporting periods, until the time of repayment of the liability under the only investment loan of BREF.

The trade and other receivables come second, with a larger share of 34.38%. Their amount increased almost three times, as a result of the security deposits received from the tenants in the new wing of Building 1, Business Park Sofia, and the guarantees provided by BREF in connection to the management activities in Wing A, Building 1, Business Park Sofia.

The payables to the managing company come next. Their value dropped almost three times, as a result of the repayment of the delayed monthly fee to the company and the payment of obligations related to the development of the new technical design of the new building in the properties situated at the Ring Road.

There will be no provisions for dividends payable for this year, as the financial result of the Fund is negative; although that after the netting of the revaluation and its transformation profit is generated, the Company does not meet the requirements of article 247a of the Commercial Act.

Accumulation of liabilities is expected to start during the next reporting period as a result of the groundbreaking of the construction of the new building, which will result in increase of the total value of the current liabilities.

External Sources of Liquidity

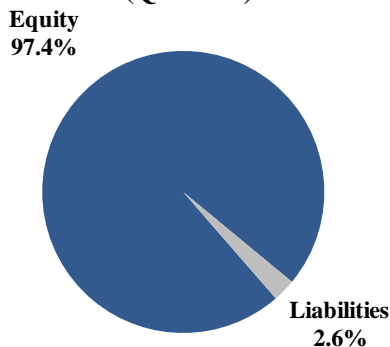
The external sources of liquidity are the equity and the investment loan as described in detail in section 3.3. Capital resources. BREF has sufficient financial resources available to fully support its activity during the following months. From viewpoint of allocation of free resources for project implementation, BREF will focus mainly in the construction of the new building, in current repairs in the existing buildings and in searching for new investment projects and currently does not intend to attract new funds from external sources.

3.3 Capital resources

At the end of December 2014 the long-term capital of BREF, both equity and borrowed capital, recorded a decrease of 2.36% to EUR 36,694 thousand. This change is a result of the realised loss from revaluation of assets at the end of the year and the paid principal under the investment loan of the Fund. The past quarter saw again a decrease in the share of the borrowed capital, which reached 2.6%, as compared to 3.2% at the end of the preceding quarter. The distribution between equity and borrowed funds is presented in the figures below.

Figure 2: Allocation between equity and external financing

BREF Long-term Capital Structure (Q4/2014)



BREF Long-term Capital Structure (Q3/2014)

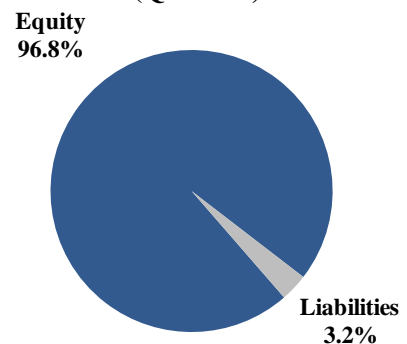


Table 6 – Leverage ratios

Leverage ratios	31.12.2014	30.09.2014	30.06.2014	31.03.2014
Debt-to-Equity	0.07	0.07	0.09	0.10
Non-Current Assets-to-Equity ratio	0.92	0.90	0.77	0.77
Long-term-Debt-to-Non-Current-Asset	0.03	0.04	0.05	0.06

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

■ Equity

At the end of December 2014 the equity of BREF is EUR 35,735 thousand, which represents a decrease of 1.81% as compared to the prior quarter. The recorded decrease is wholly due to the registered by the Fund loss for the period.

Table 7 – Total equity as of 31st December 2014, 30th September 2014, 30th June 2014 and 31st March 2014

Equity (in thousands)	31.12.2014	30.09.2014	30.06.2014	31.03.2014
Share capital	30,908	30,908	30,908	30,908
Share premium	5,016	5,016	5,016	5,016
Retained earnings	(188)	470	407	259
Total equity	35,735	36,393	36,330	36,182

■ External financing

During the past quarter the Fund paid regularly the installments due on the investment loan used to finance the Mr. Bricolage project. The loan principal outstanding as of the end of December 2014 totals EUR 1.87 million. The term of the loan is by December 2016. No new investment loans were utilized during the quarter under review.

■ Capital expenses during the next periods under review

The Fund's investment strategy for 2015 is focused mainly on constructing of the new office building on the Ring Road in Sofia. In addition new capital expenditures are expected for Building 1 in Business Park Sofia, where the chillers of the building have to be replaced before the new summer season.

BREF intends to use its currently available capital resources to support its present and future investment projects and to borrow funds only in case of a necessity.

3.4 Asset structure

The amount of the BREF assets by the end of 2014 dropped by 1.73% to EUR 38,274 thousand, as compared to the end of the prior quarter when the amount of the assets was EUR 38,948 thousand. The recorded decrease was mainly a result of the negative revaluation of assets of the Fund.

Table 6 – Asset structure

Asset structure (thousand EUR)	31.12.2014	% share	30.09.2014	% share	30.06.2014	31.03.2014
Non-current assets incl.	32,710	85.46%	32,855	84.36%	27,937	27,937
- total property	32,606	85.19%	32,757	84.11%	27,936	27,936
- cost for acquisition of fixed assets	101	0.26%	97	0.25%	0	0
Current assets incl.	5,564	14.54%	6,093	15.64%	11,738	11,860
- VAT receivable	0	0.00%	946	2.43%	0	0
- trade receivable	134	0.35%	270	0.69%	308	713
- investment property held for sale	827	2.16%	1,181	3.03%	1,211	1,211
- cash and cash equivalents	4,591	12.00%	3,685	9.46%	10,214	9,928
Total assets	38,274	100%	38,948	100%	39,675	39,797

The structure of the assets did not change significantly, provided that there was a minor increase in the share of the long-term assets, which reached 85.46%, as compared to 84.36% at the end of the third quarter. Despite the larger share, the value of the long-term assets dropped mainly as a result of the negative revaluation of the properties in Mladost 4 quarter, Sofia. This revaluation follows from the change in the zoning of the properties, the future potential of which is still not calculated in the current value of the assets. The smaller share of the short-term assets is a result of the larger depreciation of the investment properties held for sale, as compared to the depreciation of the other long-term assets. During the next quarter, along with the accumulation of expenses on the construction of the new building, the share of cash is expected to drop, while the share of costs for acquisition of FTA is expected to grow.

3.5 Financial Results

The operation of the Company during the fourth quarter of 2014 was focused mainly on the management of the revenue-generating projects of the Fund; the new rental agreement for Floor 1 of Building 1 in Business Park Sofia entered into force during the same period.

■ Revenue from operations

During the reviewed quarter the accounted income was EUR 580 thousand, or 38.46% more than the prior quarter. The main reason for this was the recorded higher revenue from rent and other revenue.

Table 9 – Realized revenues by quarters and accumulated since the beginning of 2014.

Revenue (in thousand EUR)	Q4 - 2014	Q3 - 2014	Q2 - 2014	Q1 - 2014	2014
Income from sale of assets	0	20	0	21	41
Rental income	496	372	352	329	1,549
Revenue from interest and other financial revenues	3	7	82	99	190
Other financial income	21	19	19	23	82
Other Income	60	1	0	4	64
Total revenue	580	419	453	475	1,927

The largest share, or 85.63%, during the past quarter was again that of the income from rent. Its amount increased from EUR 372 thousand during the third quarter to EUR 496 thousand during the fourth, and the main reason for this was the income from rent from the new office building of the Fund. In the next quarter we expect to have a complete period of income from rent from Floor 1, Wing B, of Building 1, which will increase the total amount of income from rent.

The Other income item comes second during this quarter, accounting for 10.32%; this item contains the funds received from the insurance of the Mr. Bricolage store in Sofia, which suffered from the heavy hail in Sofia in early summer, and written off old liabilities of the Fund.

The income from change in the value of the realized swap under the loan for financing of the purchase of the Mr. Bricolage stores comes next. The amount of this income will be expected to drop with the coming of the end of the utilised loan.

The income from interest is last, amounting for 0.44%. The significant decrease of this item of the income is a result of the smaller amount of cash and of the more conservative policy in terms of management of the free cash, within the framework of the bank turmoil in Bulgaria last year.

The income from rents is expected to grow during the next quarter, thus leading to overall growth of the Company income.

■ Expenses from operations

During the past quarter the total expenses of BREF increased 2.5 times, reaching EUR 1,238 thousand. The recorded negative revaluation of assets of the Company underlies such increase.

Table 10 – Realized expenses by quarters and accumulated since the beginning of 2014.

Expenses (in thousand EUR)	Q4 - 2014	Q3 - 2014	Q2 - 2014	Q1 - 2014	2014
Value of sold assets	0	(29)	0	(25)	(53)
Interest expense	(29)	(32)	(34)	(37)	(131)
Management fees	(137)	(137)	(135)	(135)	(544)
Materials expense	(2)	(2)	(2)	(3)	(7)
BOD and employees salaries expense	(22)	(18)	(18)	(16)	(75)
Loss from fair value adjustments	(828)	0	0	0	(828)
Other expenses	(221)	(140)	(116)	(122)	(598)
Total expenses	(1,238)	(356)	(305)	(337)	(2,236)

In the fourth quarter of 2014 the largest share, or 66.87%, of the expenses was that of the Loss from revaluation of assets item. The major share of such loss was taken up by the depreciation of “Sequoia” 2 residential building in Borovets resort and the properties in Mladost 4, Sofia. The assessment of such revaluation is one-off and the Fund expects positive values during the next reporting periods.

The Other Expenses item is ranked second, accounting for 17.84% of the expenses. The recorded decrease was a result of the accomplished repair of the premises under the new rental agreement for Building 1 in Business Park Sofia, and repair in the Mr. Bricolage stores. The largest share of this item was taken up by the expenses on property taxes, which also recorded an increase following the acquisition of new properties in September 2014. Other significant expenses under this account included expenses for external property management services, bank charges, and other administrative expenses.

The fee of the managing company was next, accounting for 11.03% of the expenses. This item of expenses kept its level, as during the past quarter only the regular monthly fee, payable by BREF to the managing company, was recorded. The amount of the fee is expected to drop during the next quarter, as a result of the lower value of the net assets of BREF.

The expenses on interest, amounting to 2.31%, come next and they include paid and accrued interest under the Mr. Bricolage loan and expenses under the interest swap utilised under the same loan. This entry recorded a decline, which was a result of the decrease of the outstanding principal under the utilised loan. The amount of the interest payments is expected to continue its decrease in the reporting periods, until the complete repayment of the loan under Mr. Bricolage project.

New revaluation of property is not scheduled for the next reporting period and this will significantly reduce the total expenses of the Company. Reduction is also expected in the expenses on repair, however increased costs for the construction of the new building are also expected.

■ Financial result

During the fourth quarter of 2014 the Fund realised loss of EUR 658 thousand, provided that the main contributor to this record was the negative revaluation of properties. If the net result of the revaluation at the end of the year is ignored, the Company will record operating profit for the quarter in the amount of EUR 170 thousand, and EUR 518 thousand on a yearly basis. The financial result during the next quarter is expected to be positive and it will depend mainly on the generated income from rent and the incurred operating expenses related to the management of the available properties.

Table 11 – Financial result by quarters and accumulated since the beginning of 2014.

Financial Result	Q4 - 2014	Q3 - 2014	Q2 - 2014	Q1 - 2014	2014
Revenues	580	419	453	475	1,927
Expences	(1,238)	(356)	(305)	(337)	(2,236)
Net profit/loss for the period	(658)	63	148	138	(309)

The accounting loss divided by the average number of shares during the quarter gives the loss per share (EPS) of EUR 0.011.

Results per share (EUR '000)	2014**	2013	2012	2011
Earnings	(309)	862	879	5,758
Earnings per share (EPS)	-0.005	0.014	0.015	0.095
Net asset value (NAV)	35,735	36,045	37,006	37,047
Common shares outstanding	60,450	60,450	60,450	60,450
NAV per share	0.591	0.596	0.612	0.613
Dividend per share	0.0000	0.0122	0.0152	0.1089
Share fair value*	0.591	0.609	0.627	0.722

According to the non-audited financial statements of the Fund, the net asset value per share (NAV) at the end of December 2014 decreased from EUR 0.596 per share to EUR 0.591 per share. This decrease is due to the realized by the Fund loss for the period.

■ Potential risks

The main risks which reflect and will continue to reflect on the activity of BREF are thoroughly described in the Registration document of the Fund (Part II of the IPO document), approved by the Financial Supervision Commission of Bulgaria in March 2005. Since then the following changes in the associated risks occurred:

Market Risk

The properties owned by BREF are subject to market risk associated with the unclear future of the real estate market in Bulgaria. This could lead to realizing a lower sale price on the properties in the portfolio as well as low liquidity of the assets set for disposition. The management of BREF considers that the Fund is subject to such a risk, baring in mind the investment properties in its property portfolio. Despite that the owned properties are well diversified in different segments and regions in Bulgaria and therefore they offer favourable conditions for good return in the future.

Interest rate risk

As of the end of December 2014, considering the investment bank loan of the Fund, it is exposed to interest rate risk regarding possible changes in the interest rate levels. In order to minimize this risk BREF has concluded a contract for interest swap according to which it exchanges a floating for a fixed interest rate. The Fund is in constant contact with the creditor bank regarding optimization of the interest payments.

Foreign currency risk

The management of BREF considers that the fund's exposure to foreign exchange risk is minimal due to the fact that the majority of foreign transactions are denominated in Euro, which is currently fixed at BGN 1.95583 for 1 EUR.

Liquidity risk

The company is exposed to liquidity risk with regard to paying off its current liabilities. At current, the Fund has enough available funds to finance its operative and investment activity. Considering the funds deposited in bank accounts and the current rental income, the Fund

believes that it has enough liquid sources to cover its needs and there is no necessity to borrow from external sources.

Construction risk

In view of the groundbreaking for the construction of the new building at the Sofia Ring Road and due to the risk of change in the price of materials, design, construction and delay of construction, or non-compliance with the preliminary design, we believe that the Fund will be also exposed to construction risk that may affect the profitability of BREF. In order to reduce the construction risk, the Company will retain a company specialised in project management and will use online platforms to organise the construction bids.

4 Share performance

The shares of Bulgarian Real Estate Fund ADSIC registered a slight change of almost 2.4% in 2014. However, the growth in the price of the shares during the first quarter was almost 21%. The fluctuation of the performance of the shares in the middle of the year can be explained with the increased systemic risk for Bulgaria as a result of the attempts to shake the bank system in the country and the political crisis that followed. Furthermore, in June Bulgarian Real Estate Fund distributed dividend of BGN 0.0239 per share, which also, although minimally, adversely affected the shares.

In comparison, in 2014 the SOFIX index increased by 6.14% and BGREIT, the index reflecting the performance of the companies investing in real estates, being a better benchmark for the Bulgarian Real Estate Fund, realised a profit of 11.20%.

The new 2015 can expect a stronger activity on the Bulgarian Stock Exchange, as compared to the prior year, in view of the stability demonstrated so far by the new government and the end of the crisis with Corporate Commercial Bank. The risk factors for the Bulgarian economy, and in particular, for the performance of the public companies on the capital market, would be aggravation of the economic stagnation in the Euro zone and repetition of the Greek debt crisis that happened for the first time a couple of years ago.

Summarized trading details for the 52 week period – 1st January 2014 – 31st December 2014:

- Opening Price – BGN 0.527 (3 January 2014)
- Closing Price – BGN 0.540 (20 December 2014)
- Highest Price – BGN 0.720 (12 March 2014)
- Lowest Price – BGN 0.493 (27 June 2014)
- Total Trading Volume – 13,547,003 shares
- Turnover for the period – BGN 7,511,033 (EUR 3,840,330)
- Weighted average price – BGN 0.554
- Market Capitalisation (31.12.2014) – BGN 32,643,000 (EUR 16,690,101)

**BREF Share Price Performance
(01.01.2014 - 31.1.2014)**

