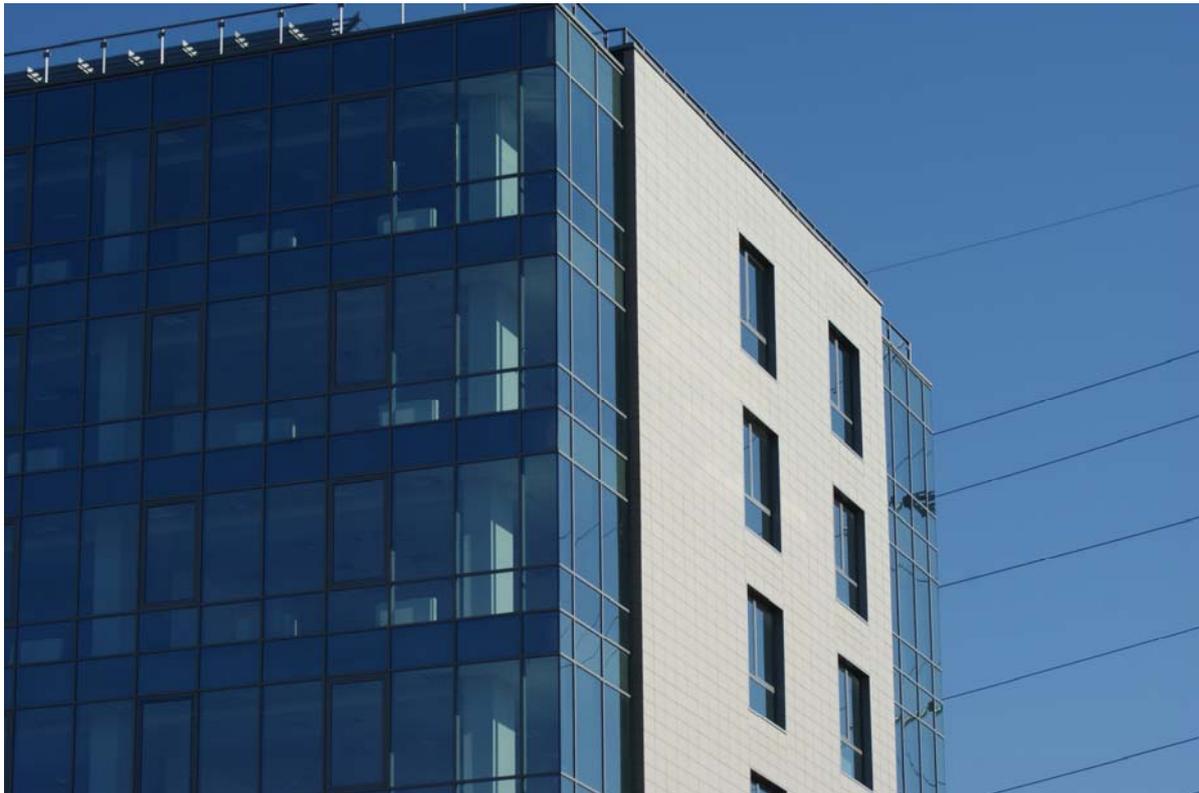


# **“Bulgarian Real Estate Fund”**

## **First Quarter Summary Report**



15 May 2013

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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 8 active projects spread across all property sectors in Bulgaria, thus creating a well diversified and low risk portfolio.

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

Stock Exchange	Ticker Symbol	Market Capitalization (31.03.2013)	Shares Outstanding
Bulgarian Stock Exchange Sofia	5BU (BREF)	EUR 18,173,665	60,450,000

## 2 Portfolio

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

### 2.1 Portfolio Structure

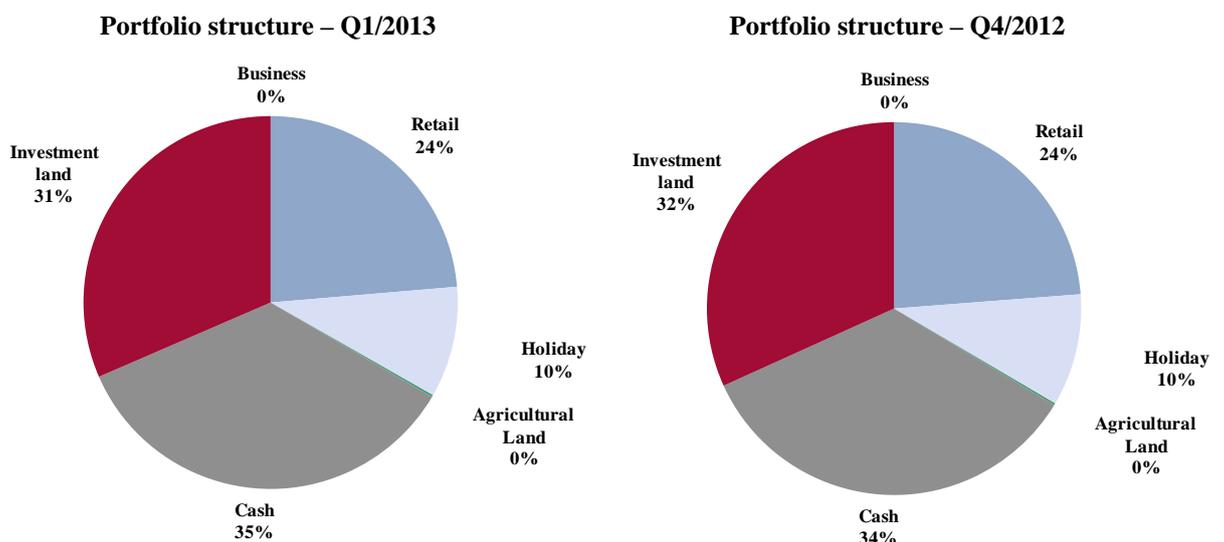
In the first quarter of 2013 the overall structure of BREF’s portfolio remained unchanged. The only difference with the previous quarter is the increase by 1% of the share of cash and cash equivalents, which is on account of the investment properties. After the change the share of the cash remains the largest with 35%. The second with 31% share are the investment properties, followed from the retail properties with 24%.

The key highlights during the past quarter were as follows:

- Carrying out planned repairs of the “Mr. Bricolage” stores situated in Sofia and Varna;
- Regulating land plots in Sofia – Ring road;
- Active marketing of the apartments and garages in apartment house Sequoia II – Borovetz;
- 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 March 2013 were eight, 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 three out of the eight projects. The table below presents the projects segmented in accordance to their degree of completion:

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

Project	Stage of the project	Size of project	Invested till 31.03.2013	Future investments
<b>Current projects</b>				
"Mr. Bricolage" - sale and leaseback	Operational management	10,266	10,266	0
Agricultural land	Operational management	66	66	0
Apartment house "Sequoia2" - Borovetz	for sale	1,891	1,891	0
<b>Pipeline projects</b>				
Seaside Holiday Village	suspended	9,203	2,308	0
Investment plots near Veliko Tarnovo*	suspended	262	262	n.a
Investment plots near Vidin*	suspended	301	301	n.a
Investment plots in Sofia - Ring road*	change of regulation	2,465	2,465	n.a
Investment plots in Sofia - Mladost IV*	suspended	10,664	10,664	n.a
<b>Total</b>		<b>35,118</b>	<b>28,223</b>	<b>0</b>

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

From the above-mentioned projects “Mr. Bricolage” – sale and leaseback and Agricultural land are currently operational, as apartment house “Sequoia II” 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 on the Ring road and 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 EFG Bulgaria at the amount of EUR 7 million. The non-paid principal on the loan as of 31<sup>st</sup> March 2013 is EUR 3.35 million.

In the last year BREF signed additional annexes with Doverie-Brico and currently the terms of both rent agreements are until December 2021. From July 2013 will be 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. Furthermore, in the beginning of 2013 the planned repair of the roof of Varna store has been completed.

### 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.

The total monthly rent for the stores until June 2013 will remain EUR 90,147, after which the monthly rent will be increased with the inflation index HICP 27 countries, published by EUROSTAT for 2012.

### 2.3 Project – Agricultural land

The total agricultural land owned by BREF as of the end of March 2013 is 455 dka, of which 323 dka are subject of litigation.

The Fund's last quarter activity was mainly directed towards collecting the rental receivables for previous years. As a result as of March 2013 were collected 91.9% from the receivables for 2010/2011 and 92% from the receivables for 2011/2012.

**Project parameters:**

Agricultural land	
Total owned lands	455 dka
Investment	EUR 66,000
Acquisition price per dka	EUR 145

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

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

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

During the past quarter no apartments were sold. As of the end of March 2013 a total of seven apartments have been disposed of and a campaign for selling the rest of the apartments is in progress.

**Project parameters:**

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

### 2.5 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, 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
Invested until 2012	EUR 2.3 M

## 2.6 Project – Investment 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 retail premises, where large retail chains may establish franchise units.

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

## 2.7 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 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	suspended

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

Within the period 2006 – 2007 the Fund acquired six land plots in the vicinity of Vitosha Mountain, neighboring the already realized KBC project. The total size of the acquired properties was 18,052 sq.m. After the sale in 2011, together with Kambanite Business Centre, of some of the plots BREF remain owner of 11,081 sq.m.

The area is featured by good transport infrastructure of the Ring Road, proximity to the developing Residential Park Sofia and Business Park Sofia and majority of other commercial sites like Technopolis and IKEA. All these make the project attractive for future development.

During the past quarter the Fund continued its efforts to regulate the plots remained ownership of BREF after the KBC deal. The new regulation is already approved by Sofia Municipality Counsel and the second final public announcement of the new regulation is forthcoming.

### Project parameters:

Investment Plots in Sofia - Ring Road	
Total plots' area	11,081 sq.m
Purchase price	EUR 2.47 M
Status	rezoning procedure

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

BREF is owner of 17 land plot 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 as of the end of March 2013 the total area of the owned land plots is 42,190 sq.m.

In 2008 Sofia Municipality has started new rezoning procedure of the whole district, which has postponed the investment intentions of BREF until the procedure is over. Currently the new structural plan is announced for second final time, but due to objection raised by one of the current owners the procedure is stopped until this objection is rejected.

### **Project parameters:**

<b>Investment Plots, Sofia - Mladost IV district</b>	
Total plots' area	42,190 sq.m
Purchase price	EUR 10.66 M
Status	suspended

### 3 Financial Highlights Q1 / 2013.

#### 3.1 Summarized Financial Statements

The following financial statements are based on non-audited financial statement for the first quarter of 2013.

*Table 3 – Balance sheet as of 31<sup>st</sup> March 2013 and 31<sup>st</sup> December 2012.*

(All amounts in EUR '000)	31.03.2013	31.12.2012
<b>ASSETS</b>		
<b>Non-current Assets</b>		
Investment property	25,372	25,372
Cost for acquisition of fixed assets	7	0
Plant and equipment	3	3
Deferred expenses	0	0
<b>Total Non-current Assets</b>	<b>25,382</b>	<b>25,375</b>
<b>Current Assets</b>		
Investment property held for sale	1,223	1,223
VAT receivable	0	9
Trade receivable	182	516
Cash and cash equivalents	15,197	14,851
Other current assets	0	0
Deferred expenses	5	5
<b>Total Current Assets</b>	<b>16,606</b>	<b>16,604</b>
<b>TOTAL ASSETS</b>	<b>41,988</b>	<b>41,979</b>
<b>EQUITY AND LIABILITIES</b>		
<b>Equity</b>		
Share capital	30,908	30,908
Share premium	5,016	5,016
Retained earnings	1,301	1,082
<b>Total equity</b>	<b>37,225</b>	<b>37,006</b>
<b>Non-current liabilities</b>		
Interest bearing loan	2,511	2,721
Derivative financial instrument	252	290
<b>Total Non-current liabilities</b>	<b>2,764</b>	<b>3,011</b>
<b>Current liabilities</b>		
Current part of non-current liabilities	834	823
VAT payable	41	1
Payables to management company	148	149
Payables to the personnel and SIC	2	4
Provisions for dividends due	920	920
Trade and Other current liabilities	55	65
<b>Total Current liabilities</b>	<b>2,000</b>	<b>1,962</b>
<b>Total liabilities</b>	<b>4,764</b>	<b>4,973</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>41,988</b>	<b>41,979</b>

*Table 4 – P&L statement for the first quarter of 2013 and for the fourth quarter of 2012.*

(All amounts in EUR '000)	Q1 - 2013	Q4 - 2012
Income from sale of assets	0	0
Rental income	271	273
Revenue from interest and other financial revenues	192	216
Other financial income	38	29
Other Income	6	191
<b>Total Revenue</b>	<b>508</b>	<b>708</b>
Interest expense	(49)	(57)
Management fees	(139)	(144)
Materials expense	(1)	(1)
BOD and employees salaries expense	(15)	(15)
Loss from fair value adjustments	0	(144)
Other expenses	(85)	(344)
<b>Total expenses</b>	<b>(289)</b>	<b>(704)</b>
<b>Profit/(loss) for the period</b>	<b>219</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>0.004</b>	<b>0.000</b>

## 3.2 Liquidity

*Table 5 – Liquidity ratios as of 31<sup>st</sup> March 2013 and 31<sup>st</sup> December 2012.*

Liquidity Ratios	31.03.2013	31.12.2012
Current ratio	8.30	8.46
Quick ratio	7.69	7.84
Cash ratio	7.60	7.57

In the result from the increase in current liabilities, the current and quick liquidity ratios decreased by 1.9% to 8.30, resp. 7.69. Unlike the first two ratios, the cash liquidity ratio registered a slight increase up to 7.60. This change is mostly due to the interest on short-term deposits paid during this quarter, which led to an increase in the Company's cash, respectively to the improvement in the cash liquidity index. Despite the changes in the first two ratios, the Company's total liquidity remained high, which is also demonstrated by the indices in the table above.

### ■ Internal sources of liquidity

During the first quarter of 2013 the internal sources of liquidity registered a slight increase, with a larger increase in current liabilities due to the higher current portion of the BREF's loan payables and the taxes charged on real estate properties.

#### ○ Short-term (current) assets

*Table 5A – Current assets as of 31<sup>st</sup> March 2013 and 31<sup>st</sup> December 2012.*

Liquidity sources	31.03.2013	%	31.12.2012	%
<b>Current Assets</b>				
Investment property held for sale	1,223	7.36%	1,223	7.37%
VAT receivable	0	0.00%	9	0.05%
Trade receivable	182	1.09%	516	3.11%
Cash and cash equivalents	15,197	91.51%	14,851	89.45%
Deferred expenses	5	0.03%	5	0.03%
<b>Total Current Assets</b>	<b>16,606</b>	<b>100%</b>	<b>16,604</b>	<b>100%</b>

The total amount of the short-term assets remained almost unchanged with a minimal increase amounting to EUR 2 thousand, whereby the total amount of the current assets reached EUR 16,606 thousand. On the other hand, the total structure of the assets changed, with cash increasing entirely at the expense of interest receivables. The registered change in cash results from the accrued interest on short-term deposits paid during the period under review, whereby their amount reached EUR 15,197 thousand or 91.51% of the total amount of current assets.

The investment properties remained second, keeping their value and share in the current assets. This item takes into account the book value of the residential building "Sequoia 2" in Borovets Resort.

Trade receivables and interest retained their third position despite the decrease, and at the end of the quarter their share was 1.09%. As mentioned above, the main reason for their decrease was the payment of a large part of the accrued interest on short-term deposits of the Company. Other key receivables accounted for in this item include leasehold receivables and receivables on advance payments under repair contracts from previous reporting periods.

During the next quarter the current assets are expected to slightly increase, with the main reason being the interest income from deposits and the rental income from the Mr. Bricolage stores.

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

*Table 5B – Current liabilities as of 31<sup>st</sup> March 2013 and 31<sup>st</sup> December 2012.*

Liquidity sources	31.03.2013	%	31.12.2012	%
<b>Current liabilities</b>				
Current part of non-current liabilities	834	41.69%	823	41.95%
VAT payable	41	2.04%	1	0.03%
Payables to management company	148	7.41%	149	7.58%
Payables to the personnel and SIC	2	0.08%	4	0.21%
Provisions for dividends due	920	46.01%	920	46.90%
Trade and Other current liabilities	55	2.76%	65	3.34%
<b>Total Current Liabilities</b>	<b>2,000</b>	<b>100%</b>	<b>1,962</b>	<b>100%</b>

During the past quarter the total amount of the current liabilities increased by 1.9% to EUR 2,000 thousand. This change was brought about by the increase in payable taxes and the increase in the short-term portion of the Company's investment loan. The total structure of the current liabilities remained constant, and the changes that were observed were mainly in the afore-mentioned items.

The largest share, i.e. 46.01% of the current liabilities, belonged to the provisions for dividends due for the financial year 2012 which amounted to EUR 920 thousand. The calculated amount forms 90% of the adjusted financial result, determined according to art. 10 of the Special Investment Purpose Companies Act. The final amount to be distributed as dividends for 2012 shall be determined at the General Shareholders' Meeting, when the financial results for 2012 are voted on. At the next General Shareholders' Meeting the Company's Management intends to propose for distribution 100% of the transformed financial result amounting to EUR 1,023 thousand as well as an additional dividend amount obtained from the undistributed profit from previous years, which additional dividend will amount to EUR 980 thousand in total. Thus the total distributable amount may increase to EUR 2,003 thousand.

The second largest share of 41.69% belongs to the interest accrued and the current portion of the principal on the investment loan utilized by the Company on Mr.Bricolage project. The slight increase in this item is due to the increasing amount of the monthly payments on the principal of the loan. This amount is expected to gradually increase over the subsequent reporting periods until the debt on the only investment loan of BREF has been repaid.

The payables to the management company came third at 7.41%. They preserved their value, with the main payables being those for the monthly administration fee and the payables related to construction guarantees, left from the construction of Kambani Business Center.

Trade and other payables came next in size. Their amount decreased by appr. 15.5% reaching EUR 55 thousand at the end of the quarter. The reason for the decrease in trade payables was the payment during the quarter under review of dividends payable for previous periods, not collected by some of the shareholders.

At the end of the next reporting period the amount of the current liabilities is expected to remain the same, with a potential increase, if the General Shareholders' Meeting decides on distributing an additional dividend from the undistributed profit from past years.

■ **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.

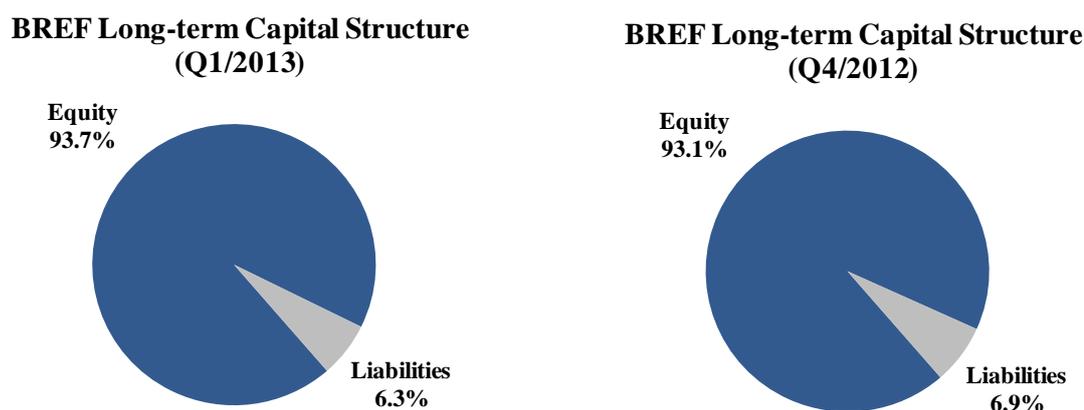
BREF has sufficient financial resources available to fully support its activity during the following months. From viewpoint of allocation of free resources for project implementation, BREF will focus mainly in searching for new investment projects and currently does not intend to attract new funds from external sources.

### 3.3 Capital resources

At the end of March 2013 the Company's long-term capital, both equity and external financing, marked a decrease of 0.02% and reached EUR 39,736 thousand. This change was mainly due to the profit achieved during the quarter under review, which result was partially offset by the repayment of the principal of the Fund's investment loan.

The increased value of the equity and the decrease in the long-term external financing changed the capital structure, with a decrease in the share of external financing to 6.3% compared to 6.9% at the end of the previous quarter. The distribution between equity and external financing is shown in the figures below.

*Figure 2: Allocation between equity and external financing*



*Table 6 – Leverage ratios*

Leverage ratios	31.03.2013	31.12.2012
Debt-to-Equity	0.13	0.13
Non-Current Assets-to-Equity ratio	0.68	0.69
Long-term-Debt-to-Non-Current-Asset ratio	0.10	0.11

\*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 March 2013 the equity of BREF amounted to EUR 37,225 thousand, which constituted an increase by 0,6% compared to the previous quarter. The registered increase was entirely due to the profit in the amount of EUR 219 thousand achieved during the past period.

*Table 7 – Total equity as of 31<sup>st</sup> March 2013 and 31<sup>st</sup> December 2012.*

Equity (in thousands)	31.03.2013	31.12.2012
Share capital	30,908	30,908
Share premium	5,016	5,016
Retained earnings	1,301	1,082
<b>Total equity</b>	<b>37,225</b>	<b>37,006</b>

#### ■ 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 March 2013 totals EUR 3.35 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 2013 is focused mainly on ongoing management of current projects, but new investment opportunities will be pursued as well.

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 Assets structure

At the end of March 2013 the amount of assets held by BREF increased by 0.02% to EUR 41,988 thousand as compared to the end of the previous quarter, when the value of the assets amounted to EUR 41,979 thousand. The registered increase resulted mainly from the increase in the value of the long-term assets and to a lesser extent from the increase in short-term assets.

*Table 8 – Asset structure*

Asset structure (thousand EUR)	31.03.2013	% share	31.12.2012	% share
<b>Non-current assets incl.</b>	<b>25,382</b>	<b>60.45%</b>	<b>25,375</b>	<b>60.45%</b>
- total property	25,372	60.43%	25,372	60.44%
<b>Current assets incl.</b>	<b>16,606</b>	<b>39.55%</b>	<b>16,604</b>	<b>39.55%</b>
- trade receivable	182	0.43%	516	1.23%
- investment property held for sale	1,223	2.91%	1,223	2.91%
- cash and cash equivalents	15,197	36.19%	14,851	35.38%
<b>Total assets</b>	<b>41,988</b>	<b>100%</b>	<b>41,979</b>	<b>100%</b>

The registered increase in long-term assets is entirely due to the reported expenses related to the repairs done on the Mr. Bricolage stores. Nevertheless, the total structure of the assets remains constant, with small changes only within the structure of the current assets. The share of the cash increased which occurred entirely at the expense of the interest receivables - this result was brought about by the interest on bank deposits paid during the quarter under review.

## 3.5 Financial Results

The Company's activity during the first quarter of 2013 was mostly focused on ongoing management of Mr. Bricolage project, the efficient management of the available cash resources and the collection of rental receivables from past years.

### ■ Revenue from operations

During the quarter under review the reported revenue amounted to EUR 508 thousand, which constitutes a decrease of appr. 28.3% as opposed to the previous quarter. The main reason for this result was the decrease in the interest income and the smaller amount of the Other Income item.

*Table 9 – Realized revenues for the first quarter of 2013.*

Revenue (in thousand EUR)	Q1 - 2013	Q4 - 2012
Income from sale of assets	0	0
Rental income	271	273
Revenue from interest and other financial revenues	192	216
Other financial income	38	29
Other Income	6	191
<b>Total revenue</b>	<b>508</b>	<b>708</b>

During the past quarter the largest share, appr. 53.5%, belonged to the rental income. The amount of this income stayed approximately constant, with the slight change being due to changes in the reported rental income. The revenue registered during this quarter came mainly from the Mr. Bricolage project. Said income is constant over the year and the rental income is expected to remain unchanged during the next reporting period as well.

The income from interest came second at appr. 37.9%. Its amount decreased because of the lower availability of cash in the BREF's accounts and the decrease in interest on deposits.

In addition, there is a significant decrease in the Other Income item, resulting from the lack of one-time income from the category of the above-described provisions on guarantee obligations, accrued during the last quarter of the past year.

The rental income and the interest income are expected to remain relatively unchanged during the next quarter. An increase in the rental income can be expected after July 2013 when the income from the Mr. Bricolage stores in Varna and Sofia is to be indexed.

### ■ Expenses from operations

During the past quarter the total expenses of BREF decreased by 58.9% to EUR 289 thousand. This decrease resulted from the lack of negative net revaluations of assets and the decrease in other expenses. The change in the latter is due to the lack of provisions for uncollectible items which constituted the main expense item at the end of the previous quarter.

*Table 10 – Realized expenses for the first quarter of 2013.*

Expenses (in thousand EUR)	Q1 - 2013	Q4 - 2012
Interest expense	(49)	(57)
Management fees	(139)	(144)
Materials expense	(1)	(1)
BOD and employees salaries expense	(15)	(15)
Loss from fair value adjustments	0	(144)
Other expenses	(85)	(344)
<b>Total expenses</b>	<b>(289)</b>	<b>(704)</b>

The fees to the managing company held the largest share in the first quarter of 2013, i.e. 47.96%. The expense marked a slight decrease as compared to the previous quarter, with only the regular monthly fee owed by BREF to the managing company having been reported under this item during the past quarter. The fees to the managing company are expected to stay the same during the next quarter.

The Other Expenses item came second at 29.56%. As noted above, this significant decrease results from the lack of one-time expenses from the category of the above-described provisions at the end of the fourth quarter of 2012. Within this item the largest share is held by tax expenses related to real estate properties. The other significant expense amount under this account were the expenses for external services, the expenses for bank fees and others related to the management of the Fund.

What comes next, with a share of 16.99%, is interest expenses which include paid and accrued interest on the loan and the expenses in connection with the interest rate swap used on the Mr. Bricolage loan. This amount showed a diminution as a result of the decrease in the unpaid principal of the loan taken out. During the subsequent reporting periods the paid interest amount is expected to continue decreasing until the loan on Mr. Bricolage project is fully repaid.

During the next quarter the total expense amount is expected to decrease, with a potential increase, if new investment projects are initiated.

## ■ Financial result

During the first quarter of 2013 the Fund registered a profit in the amount of EUR 219 thousand, with the main contribution to this significant increase coming from the lack of negative revaluations from the end of the past year and the lack of extra ordinary expenses at the end of the fourth quarter. During the next reporting period the financial result of the Fund is expected to resemble the result from the first quarter of 2013.

*Table 11 – Financial result for the first quarter of 2013.*

Financial Result	Q1 - 2013	Q4 - 2012
Revenues	508	708
Expences	(289)	(704)
<b>Net profit/loss for the period</b>	<b>219</b>	<b>5</b>

The accounting profit divided by the average number of shares during the quarter gives the earnings per share (EPS) of EUR 0.004.

Results per share (EUR '000)	Jan - Mar 2013**	2012	2011	2010
Earnings	219	879	5,758	359
Earnings per share (EPS)	0.004	0.015	0.095	0.006
Net asset value (NAV)	37,225	37,006	37,047	37,870
Commom shares outstanding	60450	60450	60,450	60,450
NAV per share	0.616	0.612	0.613	0.626
Dividend per share		0.0152	0.1089	0.0202
Share fair value*	0.616	0.627	0.722	0.647

\* Share fair value = NAV per share + Dividend per share

\*\* Net asset value for Jan-Mar 2013 is per non-audited financial statements, while for 2010-2012 according to audited financial statements

According to the non-audited financial statements of the Company, the net asset value per share (NAV) at the end of March 2013 increased from EUR 0.612 per share to EUR 0.616 per share, which constitutes a quarterly increase of 0.58%. This increase is due to the profit achieved during the reporting 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 March 2013, 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***

Provided that the construction works being carried out by BREF are minimal at the moment and all past construction has been completed, the Fund considers that it is not exposed to this kind of risk.

## 4 Share performance

During the past one-year period the shares of Bulgarian Real Estate Fund have registered a drop of 21.18% to BGN 0.588 per share as at 28th March 2013. However, it should be noted that the performance of the Fund's shares reflects the distribution of dividends by the Fund 2012 out of the profit for 2011. As at 18th June 2012, which was the last date for trade in dividend-bearing shares, the price of the shares of Bulgarian Real Estate Fund was BGN 0.695; as at 19th June 2012 shares were traded for BGN 0.45 each. Nevertheless, the Fund's shares rose by 13.07% just during the first quarter.

In general, BGREIT, the index reflecting the performance of companies investing into real estate, continued to register a good return, with an increase by 9.43% for the first quarter of 2013. In this respect BREF's shares perform better than their benchmark index. Special investment purpose companies have attracted the most interest from investors over the past 2-3 years due to their stable financial statements, the quality of their investment portfolios and the practice of paying attractive dividends.

In the second half of 2013 and the beginning of 2014 a gradual renewal of investors' interest in shares listed on the Bulgarian Stock Exchange can be expected. Although the debt problems in Europe have not been resolved yet and the Old Continent's economy has been performing unsatisfactorily, there is a clear political will to preserve the unity of the European Community and encourage growth in the European Union.

Summarized trading details for the 52 week period – 1<sup>st</sup> April 2012 – 31<sup>st</sup> March 2013:

- Opening Price – BGN 0.746 (3 April 2012)
- Closing Price – BGN 0.588 (28 March 2013)
- Highest Price – BGN 0.747 (2 May 2012)
- Lowest Price – BGN 0.45 (19 June 2012)
- Total Trading Volume – 7,943,019,571,7714 shares
- Turnover for the period – BGN 5,365,008 (EUR 2,743,085)
- Weighted average price – BGN 0.56
- Market Capitalisation (31.03.2013) – BGN 35,544,600 (EUR 18,173,665)

**BREF Share Price Performance  
(1.04.2012 - 31.03.2013)**

