

“Bulgarian Real Estate Fund”

Summary Annual Report 2015



21 April 2016

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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 (31.12.2015)	Shares Outstanding
Bulgarian Stock Exchange Sofia	5BU (BREF)	EUR 16,041,041	60 450 000

2 Portfolio

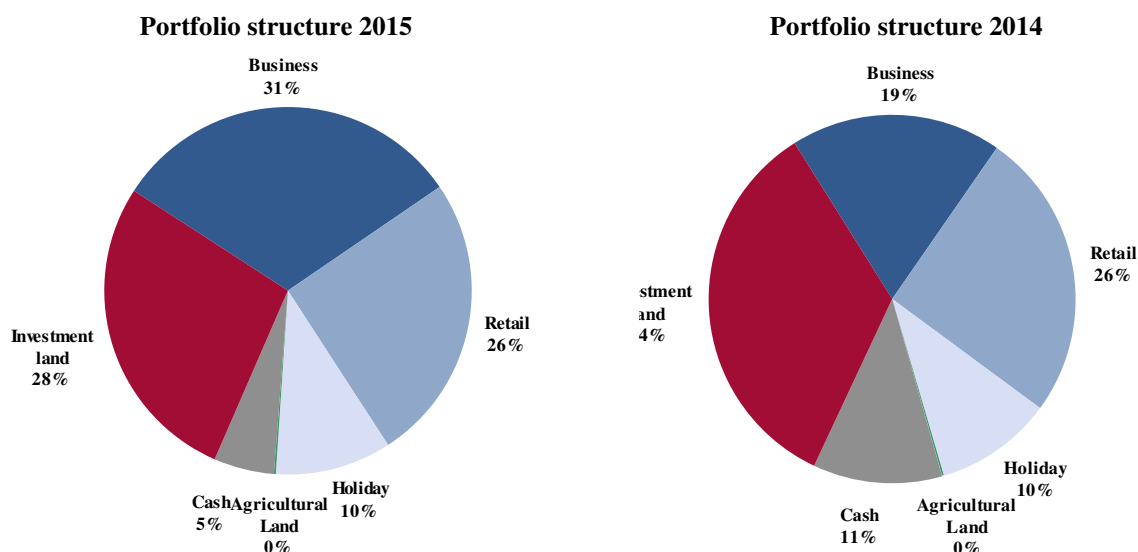
BREF has engaged in numerous projects ranging in size, activity and geographical location. Our diversified portfolio may provide some protection from the ups and downs of individual properties such as occupancy rates, defaults on rents, and downturns in industry sectors or local markets.

2.1 Portfolio structure

The main change in the structure of the BREF portfolio during the last year resulted from the transformation of the project 'Investment plots in Sofia – Ring Road' into the project 'Kambanite Office Building' and the kick-off of the construction works for the new building. The change followed from the completed zoning of the property and the issuance of a construction permit, with which the project was transferred into the business properties sector. During the last year, with the accrual of expenses on the implementation of the new project, the share of the business properties was increasing and in the second half of the year they gained the largest share of 31% in the portfolio of the Fund. The investment properties were second with 28% and the commercial areas - third with 26%. During the next year the share of business properties is expected to continue its growth with the investment of the additional funds in the construction of the new office building. The key highlights during the past year were as follows:

- Sale of an apartment in Apartment house Sequoia 2 – Borovetz;
- Sale part of the plots near Veliko Tarnovo;
- Development of new project Kambanite Office Building and organizing the construction work of the new building;
- Marketing the new office building and conducting negotiations with potential tenants;
- Securing bank loan for financing the construction works of the new building;
- Operational management of Building 1 in Business Park Sofia and renegotiation of the expiration lease agreements;
- Performing capital expenditures in Building 1 in Business Park Sofia;
- Performing current repairs in Mr.Bricolage store in Sofia and preparation for the reconstruction and the expansion of Varna store;
- 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 2015 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 year activity was mainly directed towards managing five 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 31.12.2015	Future investments
Completed projects				
"Mr. Bricolage" - sale and leaseback	operational management	10,556	10,300	256
Agricultural land	operational management	41	41	0
Apartment house "Sequoia 2" - Borovetz	for sale	1,825	1,825	0
Office building 1 - Business Park Sofia	operational management	7,595	7,572	23
Kambanite Office Building	in construction	10,364	5,292	5,072
Pipeline projects				
Seaside Holiday Village	suspended	9,203	2,324	0
Investment plots near Veliko Tarnovo*	suspended	230	230	n.a
Investment plots near Vidin*	suspended	301	301	n.a
Investment plots in Sofia - Mladost IV*	suspended	10,672	10,672	n.a
Total		50,788	38,558	5,351

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

From the above-mentioned projects "Mr. Bricolage", Office building 1 in Business Park Sofia and Agricultural land are currently operational. Kambanite Office Building is in construction and 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 2015 is EUR 962 thousand.

The terms of both rent agreements are up to December 2021 and in 2013 a rent indexation with the HICP index of 27 countries for the previous year was introduced.

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.

According to the current clauses in 2015 the total monthly rent was indexed up to EUR 95,193.48. The next rent indexation will happen at the beginning of 2016.

During the past year the tenant paid regularly all amounts due for the rent of both stores. In 2015 some current repairs were done in Sofia store. The fire detecting and the cooling systems were partially renewed, as well as the entrance door of the store was replaced.

At the end of the prior year at the request of the tenant it was resolved that in 2016 our store in Varna would be expanded and reorganized. As a result of this decision, an agreement for the necessary construction works was signed in January 2016 and the expansion started. Following the reorganization, the rental payment by the tenant will increase in accordance with the incurred expenses.

2.3 Project – Agricultural Land

The total agricultural land owned by BREF as of the end of the year was 283 dka, of which 107 dka are subject of litigation. The written off land due to the lost cases is 121 dka. The rented out lands are 43.5 dka or 15% from the total land. The average annual rental price is about BGN 50 per dka.

Project parameters:

Agricultural land	
Total owned lands	283 dka
Investment	EUR 41,000
Acquisition price per dka	EUR 144

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 year one apartment was sold and as of the end of December 2015 a total of nine apartments had been disposed of. 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 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 BREF's properties is 96.8%. The total price is EUR 7.2 million.

During the year rental agreements for more than 3,800 square meters, or 60% of the lettable area in the building were renegotiated. As a result of this, agreements for extensions of the rental contracts until 2021 for 2,150 square meters and until 2019 for 1,650 square meters were signed. One of the tenants of the north wing of the building vacated a floor with an area of 772 square meters and the same area was let to another tenant from the same building. By the above relocation and the executed new agreements the Fund ensured stability of rental income for the years to come and optimized the profit of the project.

The General meeting of the condominium was held at the beginning of the year and it resolved to renew the chillers of the building. The chillers were delivered and mounted later in the year and now the building complies with the new legal framework on cooling systems. The programme of the Company dedicated to improvement of the infrastructure of the property and of the conditions of work in the Building will span over the year.

Project parameters:

Building 1 - Business 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 – Office Building Kambanite

The company owns a land plot with an area of 10,671 square meters in the Malinova Dolina - Bunkera Villa Zone area, Sofia. Following the zoning of the property, in 2015 the Fund started a project for construction of a multifunctional building of the highest class, which meets all criteria for green buildings and offers all amenities typical of such buildings.

According to the approved design, the total built-up area of the building will be 13,498 sq.m., of which the leasable office area will be 9,609 sq.m., the restaurant will have an area of 400 sq.m., and there will be 215 parking spaces, of which 74 in the underground parking. According to the preliminary plans, the building is expected to be commissioned by the end of 2016. According to the preliminary budget, the cost of the construction works will be approximately EUR 7.8 million.

At the end of 2015 the shell construction phase of the building was finished and Act 14 was issued. All tenders for finishing works were completed and the works started. Bank financing in the amount of BGN 11 million was contracted at the end of the year in connection with the construction of the new building. The loan agreement was signed in January 2016, but the first drawdown on the loan was at the end of February 2016.

Numerous meetings with potential tenants were held during the reporting period and currently two of them declare more serious interest. The execution of the first rental contracts is already under way.

Project parameters:

Office Building Kambanite	
Built-up area	13,498 sq.m
Leasable office area	9,609 sq.m.
Parking lots	215
Construction budget	EUR 7.8 M
Status	in construction

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

In 2006 the Company purchased properties with a total area of 203,249 sq.m. located on the main Sofia - Varna road, at a distance of 5 km from the town of Veliko Turnovo. The properties constitute agricultural land and are still not zoned. During the first quarter of 2015 the Company received an offer to sell part of the properties, as a result of which in March 2015 24,445 sq.m. were sold for BGN 220 thousand. After this sale the remaining properties owned by BREF have a total area of 178,804 sq.m. Meanwhile the Fund temporarily has rented out the properties as agricultural land.

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

Project parameters:

Investment Plots near Veliko Turnovo	
Total plots' area	178,804 sq.m
Purchase price	EUR 0.23 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 the owner of 16 properties, located on the Ring Road of Sofia, at its intersection with Alexandar Malinov Boulevard, westwards, opposite Business Park Sofia. The total area of the properties owned under this project is 33,105 sq.m. This area is as a result of the new development plan for the territory, which entered in force in 2014, the official document for which were received by the Company at the end of the last year. According to the plan the old properties of the Fund were replaced by new ones of the same value, with new construction parameters, new borders and area. The new development parameters are building intensity ratio 3.5 and building density 60%. Thus, after the transformation, BREF is left with properties with a total area of 33,105 sq.m., out of which 25,132 sq.m. zoned and 7,973 sq.m. unzoned, intended for green areas.

In March 2016 the Company signed preliminary sale agreement for one of the zoned plots with total area of 3,616 sq.m. The sale has to be completed until the end of April 2016.

Currently the activity of the Fund regarding the project is suspended, as 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.

Investment Plots, Sofia - Mladost IV district	
Total plots' area	33,105 sq.m
Purchase price	EUR 10.67 M
Status	suspended

3 Financial Highlights 2015

3.1 Summarized Financial Statements

The following financial statements are created in full compliance with the International Accounting standards and are based on the audited annual financial statements for 2015 and 2014.

Table 3 – Balance sheet as of 31st December 2015 and 31st December 2014.

(All amounts in EUR '000)	31.12.2015	31.12.2014
ASSETS		
Non-current Assets		
Investment property	34,070	31,202
Equipment	-	1
Intangible assets	1	2
Other financial assets	360	360
Total Non-current Assets	34,431	31,565
Current Assets		
Investment property held for sale	778	827
Trade and other receivables	110	47
Cash and cash equivalents	1,795	4,229
Deferred expenses	10	12
Total Current Assets	2,693	5,115
TOTAL ASSETS	37,124	36,680
EQUITY AND LIABILITIES		
Equity		
Share capital	30,907	30,907
Share premium	3,245	5,016
Retained earnings/(accumulated losses)	205	(1,771)
Total equity	34,357	34,152
Non-current liabilities		
Interest bearing loans	-	960
Derivative financial instrument	-	81
Other long-term liability	-	283
Total Non-current liabilities	-	1,324
Current liabilities		
Current portion of long-term interest bearing loans	964	915
Derivative financial liability	23	-
Provisions for dividends due	822	-
Trade and other payables	958	289
Total Current liabilities	2,767	1,204
Total liabilities	2,767	2,528
TOTAL EQUITY AND LIABILITIES	37,124	36,680

Table 4 – P&L statement for 2015 and 2014

(All amounts in EUR '000)	2015	2014
Rental and service charge income	2,037	1,550
Income from sale of investment property	132	41
Interest income	6	190
Gain on derivative financial instrument	58	83
Net gains from fair value adjustments	249	-
Other Income	11	46
Total Revenue	2,493	1,910
Value of sold property	(167)	(54)
Interest expense	(103)	(141)
Management fees	(519)	(543)
Direct operating expenses arising from properties	(488)	(470)
BOD remunerations	(58)	(50)
Employee benefit costs	(28)	(25)
Net loss from fair value adjustments	0	(2,369)
Other expenses	(103)	(151)
Total expenses	(1,466)	(3,803)
Profit/(loss) for the period	1,027	(1,892)
Adjusted weighted average number of shares in the year (in thousands)	20,150	20,150
Earnings per share - basic and diluted	0.051	(0.094)

3.2 Liquidity

Table 5 – Liquidity ratios as of 31st December 2015 and 31st December 2014.

Liquidity Ratios	31.12.2015	31.12.2014
Current ratio	0.97	4.25
Quick ratio	0.69	3.56
Cash ratio	0.65	3.51

During the last year all liquidity ratios of the company demonstrated significant decrease. The reason for this was the project for the construction of the new office building of the Company, already under way, as a result of which the funds of the Fund decreased and significant obligations under the construction contracts for the new building were accumulated. By the end of the year all liquidity ratios dropped below 1, 0.69 and 0.65 for the quick and cash ratio and 0.97 for the current liquidity respectively. The ratios are expected to remain at low values in the next year, even after the funds under the new investment loan extended to the Company are utilized.

■ Internal Sources of Liquidity

The sources of liquidity demonstrated multidirectional movement during 2015. The short-term assets decreased, while the short-term liabilities increased. These changes followed from the decreasing funds in the assets and the assessed provisions for payable dividend and accumulated obligations under the construction contracts in the liabilities.

- **Short-term (current) assets**

Table 5A – Current assets as of 31st December 2015 and 31st December 2014.

Liquidity sources	31.12.2015	%	31.12.2014	%
Current Assets				
Investment property held for sale	778	28.87%	827	16.17%
Trade and other receivables	110	4.12%	47	0.93%
Cash and cash equivalents	1,795	66.63%	4,229	82.68%
Deferred expenses	10	0.38%	12	0.22%
Total Current Assets	2,693	100%	5,115	100%

The total amount of the short-term assets decreased by 47.35%, reaching EUR 2,693 thousand, as compared to EUR 5,115 one year earlier. The major reason for this was the smaller amount of cash. This movement significantly changed the structure of the assets: the share of the cash dropped from 82.68% to 66.63% and the share of the investment properties increased to 28.87%. Despite this change, cash continues to take up the largest share in the structure of the current assets. With the advancement of the construction costs for the new building and the repayment of the 2015 dividend due, the amount of cash is expected to continue to decrease, provided that increase is possible as a result of sales of properties of the Company.

The investment properties kept for sale had the second largest share, or 28.87%. The book value of the Sequoia 2 residential building in Borovets resort is reflected here. The reported decrease in the amount is the result of the final-year revaluations and from the sale of an apartment during the period. The total book value of the project is expected to decline in the next reporting periods with the sale of new apartments.

The third source of liquidity in this year is the Trade and other receivables. Their value increased more than twice, EUR 110 thousand. This increase resulted from the VAT refundable accumulated as a result of the construction works. Another big source of receivables under this item is the receivables from rents to be collected later in the reporting month.

The expectations of the management of the Company are that the amount of the current assets will further decrease and the total amount will largely depend on the amount of cash.

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

Table 5B – Current liabilities as of 31st December 2015 and 31st December 2014.

Liquidity sources	31.12.2015	%	31.12.2014	%
Current liabilities				
Current portion of long-term interest bearing loans	964	34.84%	915	75.98%
Derivative financial liability	23	0.83%	-	0.00%
Provisions for dividends due	822	29.71%	-	0.00%
Trade and other payables	958	34.62%	289	24.02%
Total Current Liabilities	2,767	100%	1,204	100%

During the last year the total amount of the current assets increased more than twice, reaching EUR 2,767 thousand at period-end. The main reason for this increase were the assessed provisions for dividends due and the increase of the accumulated commercial obligations related to the construction of the new building. At the same time the structure of the current liabilities also changed. The provisions for dividends due were in place again and the share of the commercial obligations equalized the share of the short-term part of the obligations under loans utilised by the Fund.

At the end of 2015 the payments for the year to come under the principal and the interest under the investment loan took up the largest share, or 34.84%. This item includes the amount of the contributions under the principal of the investment loan of the company payable during the next one year and the interest accrued under it at the end of the year. The weak growth under this item was a result of the increasing amount of the monthly payments under the principal of the

utilised loan. During the current year the liabilities under this loan will be fully repaid, however new liabilities will be in place after utilisation of the funds under the new investment loan of the Company.

The trade and other payables increased more than three times as compared to the end of the prior year. This increase was the result of the significant obligations, recorded at the end of the year, related to the construction of the new building and the accumulated unpaid fee to the managing company. The larger part of the obligations to the construction companies were repaid in the beginning of 2016 and the obligations to the construction companies related to the guarantees and performance bonds kept by the Fund after the completion of the construction works of the new building are the ones expected to remain.

The Provisions for dividends due item again appeared at the end of the last year. After 2014, when the Company did not pay any dividends to its shareholders, in this year the Company will have the right to pay dividends to them. The provisions for dividends due for 2015 financial year, set aside by the Company, amount to EUR 822 thousand. The calculated amount represents 90% of the transformed financial result, determined in compliance with art. 10 of the Special Purpose Vehicles Act. The final amount to be distributed as a dividend for 2015 will be determined at the regular General meeting of the shareholders at which the financial results for 2015 will be put to vote.

During the next reporting period BREF foresees that the value of the short-term liabilities will decrease and the main reason for this will be the reduced amount of the commercial obligations and the smaller amount of the short-term payables under the new investment loan.

■ External Sources of Liquidity

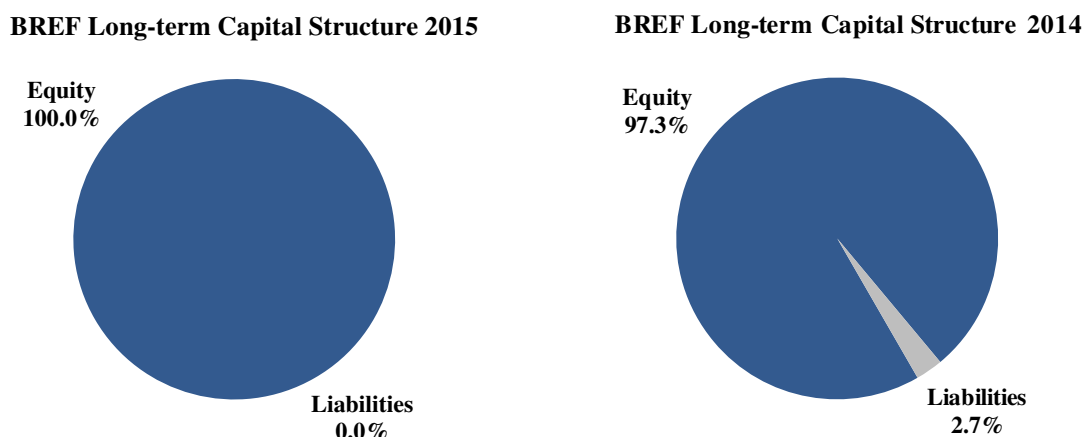
The external sources of liquidity are the equity and the investment loans as described in detail in section 3.3. Capital resources.

For the purpose of the ongoing projects the Company will use, apart from the available own financial resources, funds from the new bank loan, for which the Company signed an agreement in January 2016. In connection with the distribution of the available funds for the implementation of projects, BREF will focus its operation on the construction of the new building, repairs and refurbishment of the buildings in use and seeking new investment projects.

3.3 Capital resources

At the end of December 2015 the long-term capital of BREF, both equity and borrowed capital, recorded a decrease of 2.15% to EUR 34,357 thousand. The change followed from the repaid principal under the current investment loan of the Company and of the assessed provisions for dividends due from the current profit of the Fund.

During the last year the Company continued to repay its obligations under the current investment loan; the principal at the end of the year is payable by the end of 2016 and is not taken into account in the long-term capital. Therefore the share of the borrowed capital is equal to zero and the equity only is recorded as a capital resource. During the next year the share of the borrowed funds is expected to increase again with the utilisation of funds under the new investment loan. The lack of long-term borrowed capital by the end of the year is changing the structure of the capital, as it is 100% represented by the equity. The distribution between equity and borrowed funds is presented in the figures below.

Figure 2: Allocation between equity and external financing

Table 6 –Leverage ratios

Leverage ratios	31.12.2015	31.12.2014
Debt-to-Equity	0.08	0.07
Non-Current Assets-to-Equity ratio	1.00	0.92
Long-term-Debt-to-Non-Current-Asset ratio	-	0.03

*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 2015 the equity of BREF is EUR 34,357 thousand, which represents an increase of 0.6% as compared to 2014. The recorded increase is a result of the accounted and undistributed profit for the period, following from the good rental income and the assessed positive net revaluations of the assets of the Fund.

Table 7 – Total equity as of 31st December 2015 and 31st December 2014.

Equity (in thousands)	31.12.2015	31.12.2014
Share capital	30,907	30,907
Share premium	3,245	5,016
Retained earnings/(accumulated losses)	205	(1,771)
Total equity	34,357	34,152

■ External financing

During the past year the Fund paid regularly the instalments due on the investment loan used to finance the Mr. Bricolage project. The loan principal outstanding as of the end of December 2015 totals EUR 962 thousand. The term of the loan is by December 2016.

During the past year the Company agreed and signed in January 2016 a new bank loan agreement with Eurobank Bulgaria AD. The new loan is for 10 years and up to the amount of BGN 11 million. The purpose of the loan is to finance the construction of the new office building of the Fund situated at the ring road. The interest due under the loan is the 3-month Sofibor +3.1%. The utilization of the funds will be implemented in tranches, depending on the construction expenses made. The grace period of the principal is one year. The first utilization of funds under the new loan was made at the end of February 2016.

■ Capital expenses during the next periods under review

The Fund's investment strategy for 2016 is focused mainly on constructing the new office building on the Ring Road in Sofia. In addition new capital expenditures are expected for the

reconstruction and the expansion of Mr.Bricolage store in Varna, as well as for Building 1 in Business Park Sofia, where repairs of the common parts are planned.

For financing its construction works in 2016 BREF intends to use the new bank loan as well as its currently available capital resources.

3.4 Asset structure

The amount of the BREF assets by end-December 2015 increased by 1.21% to EUR 37,124 thousand, as compared to the end of 2014, when the amount of the assets was EUR 36,680 thousand. The recorded increase was the result of the profit achieved in during the year, including the revaluations made at the end of the period.

Table 6 – Asset structure

Asset structure (thousand EUR)	31.12.2015	% share	31.12.2014	% share
Non-current assets incl.	34,431	92.7%	31,565	86.1%
- total property	34,070	91.8%	31,202	85.1%
Current assets incl.	2,693	7.3%	5,115	13.9%
- trade receivable	110	0.3%	47	0.1%
- investment property held for sale	778	2.1%	827	2.3%
- cash and cash equivalents	1,795	4.8%	4,229	11.5%
Total assets	37,124	100%	36,680	100%

Significant change in the structure of the assets was observed during the past year. The construction of the new building lead to significant increase of the long-term assets of the Company, hence increase of their share in the overall structure of the assets. As the end of the year the share of the long-term assets reached 92.7% and the short-term assets were just 7.3%.

With the accumulation of more expenses on the construction of the new building during the next year, the growth of the share of the long-term assets is expected to continue and that of the cash - to decrease.

3.5 Financial Results

The activity of BREF in 2015 was mainly focused on the current management of the projects generating revenues for the Company and the construction of the new building on the Ring Road in Sofia.

■ Revenue from operations

Over the year the income of the Company increased to EUR 2,493 thousand, which is an increase of 30.6% as compared to the prior year. This entailed from the higher rental income and the assessed positive net revaluations at the end of the year.

Table 9 – Realized revenues in 2015 and 2014.

Revenue (in thousand EUR)	2015	% share	2014	% share
Rental and service charge income	2,037	81.7%	1,550	81.2%
Income from sale of investment property	132	5.3%	41	2.2%
Interest income	6	0.3%	190	9.9%
Gain on derivative financial instrument	58	2.3%	83	4.3%
Net gains from fair value adjustments	249	10.0%	-	0.0%
Other Income	11	0.4%	46	2.4%
Total revenue	2,493	100%	1,910	100%

The overall structure of the income remained the same, provided that the income from interest decreased and the income from sale of property increased.

In 2015 the income from rents had the greatest share, or 81.7%, reaching EUR 2,037, or an increase of 31.4%. This growth was the result of the accounted complete year of income from rents from the office areas and parking spaces in Building 1 in Business Park Sofia purchased at the beginning and at the end of 2014. In addition, the annual indexation of the rents of the Mr. Bricolage stores also contributed to the increase of the income. In 2016 the amount of the income from rents is expected to increase slightly, the major change being after the launching of the new office building of BREF.

The income from sale of properties also increased, the major contribution being from the income from sale of part of the properties of the Company in the Veliko Tarnovo area. The sale of one apartment in Borovets resort was also recorded in this item. This income is expected to grow during the next year, subject to successful sale of more properties.

Major change was also observed in the net income from revaluation of properties. The major contribution to this was the revaluation of the properties in Mladost 4, Sofia, and the intensive interest in these properties after completion of their zoning.

Major decrease in 2015 was observed in the Income from interest item. Due to the significant decrease of the available cash and the conservative policy for its management during the year, the interest income was just EUR 6 thousand. During the next year this income is expected to be within the same range and currently deviations are not expected.

The Other income item for this year contains mainly the income from insurance compensations related to money reimbursed to the Company under insurance events and written off devaluations of bad debts.

During the next year the expectations of the Fund are that the total amount of the income will increase as a result of the additional income from rent and if realised property sales.

■ Expenses from operations

Unlike income, expenses in 2015 recorded a considerable decrease of 61.4%, reaching at the end of the year EUR 1,466 thousand. The main reason for this decrease was the absence of net negative revaluations at the end of the year, which in 2014 were 62.3% of the total expenses of the Company.

Table 10 – Realized expenses 2015 and 2014.

Expenses (in thousand EUR)	2015	% share	2014	% share
Value of sold property	(167)	11.4%	(54)	1.4%
Interest expense	(103)	7.0%	(141)	3.7%
Management fees	(519)	35.4%	(543)	14.3%
Direct operating expenses arising from properties	(488)	33.3%	(470)	12.4%
BOD remunerations	(58)	3.9%	(50)	1.3%
Employee benefit costs	(28)	1.9%	(25)	0.6%
Net loss from fair value adjustments	-	0.0%	(2,369)	62.3%
Other expenses	(103)	7.1%	(151)	4.0%
Total expenses	(1,466)	100%	(3,803)	100%

In 2015 the main change in the structure of the expenses of the Company was a result of the absence of negative revaluation of properties. This in turn led to increase of the shares of all other expenses recorded in the statements.

The fee of the managing company had the largest share of the expenses for the year, or 35.4%. The recorded decrease in the amount of the expense was a result of the decrease of the net assets of the Fund, which are directly linked to the MNI fee. In the next year, following the gradual increase of the net assets of the Company, the fee of the managing company is expected also to increase.

The Direct operating property-related expenses were second with 33.3%. Their increase were mainly connected with the properties in Business Park Sofia that the Company acquired in 2014 and the resulting higher expenses on taxes and property management. In the next year, after the completion of the construction of the new building, these expenses are expected to increase further.

The share of the Expenses on interest item, which includes paid and accrued interest under the loan and expenses under the interest swap utilised for the financing of the Mr. Bricolage project, also decreased in 2015. This item recorded a decline, which was a result of the decrease of the outstanding principal under the utilised loan. During the next year these expenses are expected to increase with the utilisation of funds under the new investment loan extended to the Company.

The Other expenses item recorded a decrease of 31.5% in the last year, which was a result of the considerably lower value of the expired receivables written off at the end of the year. Other expenses recorded in this article were the administrative expenses related to the activity of BREF and properties written off after lost court proceedings.

In the next year the total amount of the expenses is expected to increase, mainly as a result of the increased expenses related to properties and the larger amount of the expenses on interest payments under the investment loans utilised by the Company.

■ Financial result

The BREF profit in the last year was EUR 1,027 thousand. The underlying reason for this was the higher rental income and positive net revaluations of properties recorded in the statements of the Company. During the next reporting period the profit is expected to remain within the same range or to demonstrate a slight decrease as a result of the expected increase of the expenses of the Company.

Table 11 – Financial result for 2014 and 2013.

Financial Result	2015	2014
Revenues	2,493	1,910
Expences	(1,466)	(3,803)
Net profit/loss for the period	1,027	(1,893)

In proportion to the adjusted average number of shares (which the General meeting of the shareholders held in February 2015 reduced to 20,150) the book profit lead to earning per share (EPS) in the amount of EUR 0.05. The projected profit for distributable dividend in 2015, determined in accordance with the requirements of article 10, paragraph 3, of the Special Purpose Vehicles Act, is EUR 822 thousand, which leads to a gross dividend per share of EUR 0.0408 (based on the changed number of shares).

Results per share (EUR '000)	2015	2014
Earnings	1,027	(1,892)
Earnings per share (EPS)	0.051	(0.094)
Net asset value (NAV)	34,357	34,152
Adjusted common shares outstanding	20,150	20,150
NAV per share	1.705	1.695
Dividend per share	0.0408	0.0000
Fair value per share	1.746	1.695

The net asset value per share (NAV) during the past reporting period increased from EUR 1.695 per share to EUR 1.705 per share, which constitutes an annual increase of 0.6%. The registered increase in the net value per share results mainly from the reported profit 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 2015, 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, due to the secured additional bank financing the Fund has enough available funds to finance its operative and investment activity.

Construction risk

Due to the start of the construction works on the new Kambanite Office Building 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 retained a company specialised in project management and will use online platforms to organise the construction bids.

4 Events after the reporting date

On 18 January 2016 BREF concluded an investment loan agreement with Eurobank Bulgaria AD to finance the construction of the new office building of the Company at the Sofia Ring Road, Vitosha Region. The maximum amount of the loan is up to BGN 11 million for a period of 10 years, with a grace period for the principal of one year. The interest due under the loan is the 3-month Sofibor plus a mark-up.

On 22 February 2016 the General meeting of the shareholders of the Fund resolved to increase the par value of the shares issued by Bulgarian Real Estate Fund SPV from BGN 1 (one) to BGN 3 (three) and reduce accordingly the number of the shares from 60,450,000 to 20,150,000, thus keeping the amount of the capital at BGN 60,450 thousand.

In March 2016 the Company executed a preliminary agreement for the sale of one of the zoned land plots in Mladost IV in Sofia with an area of 3,616 square meters. The sale is to be completed by the end of April 2016.

5 Share performance

During 2015 the shares of Bulgarian Real Estate Fund recorded decrease of 3.89%. The fluctuating performance of the shares in the last year reflects the increased systemic risk for Bulgaria after the turmoil of the bank system in the middle of 2014 and the political instability in the country in the second half of the last year. The debates concerning the imposition of fines on the companies owning agricultural land with shareholders from countries outside the EU or offshore companies have had an impact on the prices of the shares of the Fund and of other SPVs since the beginning of 2015. Nevertheless, during the last quarter of the year the influence of these factors weakened and this led to an increase of the price of the shares in the sector.

In comparison, concerns about the global growth and the high volatility in global markets along many key events during the year impacted negatively on the Bulgarian indexes. At the year-end SOFIX and BGBX 40 recorded a drop of 11.82% and 11.35% respectively, while the sector-specific BGREIT fell by only 1.4%. The companies investing in real estates continue to generate the interest of investors and their shares are traditionally among the most traded on the floor of the Bulgarian Stock Exchange, Sofia.

The major risk factors that the Bulgarian economy and in particular the public companies on the capital market face are related to the weak or absent economic growth in the EU – the major trade partner of Bulgaria, and to the insufficient short-term and long-term investments in Bulgaria.

Summarized trading details for the 52 week period – 1st January 2015 – 31st December 2015:

- Opening Price – BGN 0.545 (5 January 2015)
- Closing Price – BGN 0.519 (30 December 2015)
- Highest Price – BGN 0.559 (7 January 2015)
- Lowest Price – BGN 0.446 (26 June 2015)
- Total Trading Volume – 9,144,053 shares
- Turnover for the period – BGN 4,354,782 (EUR 2,226,565)
- Weighted average price – BGN 0.476
- Market Capitalisation (31.12.2015) – BGN 31,373,550 (EUR 16,041,041)

**BREF Share Price Performance
(01.01.2015 - 31.12.2015)**

