

“Bulgarian Real Estate Fund”

Third Quarter Summary Report



20 December 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 (30.09.2015)	Shares Outstanding
Bulgarian Stock Exchange Sofia	5BU (BREF)	EUR 13,908,417	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.

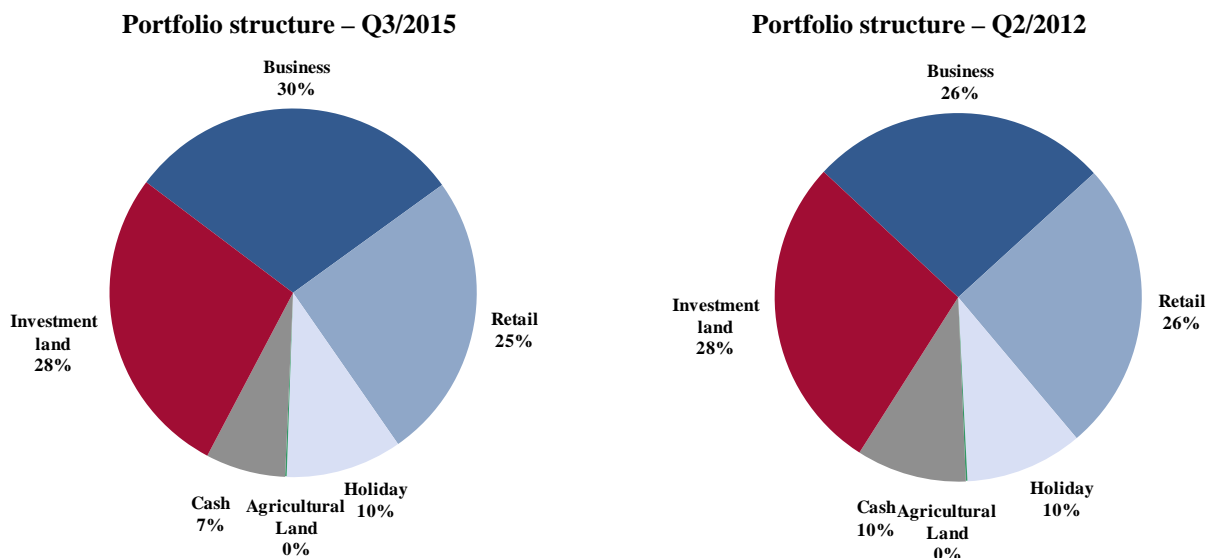
2.1 Portfolio structure

During the latest quarter the share of business properties has continued to increase at the expense of the cash and at the end of the period they had the largest share in BREF's portfolio. This change resulted from the construction of the new building of BREF on the Ring Road near Business Park Sofia. After the made investments in the last reporting period the share of the business properties reached 30%. Second with share of 28% are the investment properties, followed by the retail properties with a share of 25%. With the accumulation of expenses on the construction of the new building the next quarter is associated with expectations that the business property share will continue to increase. The key highlights during the past quarter were as follows:

- Organizing the shell construction works of Kambanite Office Building and organizing auctions for the finishing works;
- Marketing the new office building and conducting negotiations with potential tenants;
- Renegotiating the expiring lease agreements for premises in Building 1 in Business Park Sofia;
- Operational management of Building 1 in Business Park Sofia and organizing repairs in the rented premises;
- Performing current repairs in Mr.Bricolage store in Sofia;
- Assessment of new 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 September 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 quarter 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 30.09.2015	Future investments
Current projects				
"Mr. Bricolage" - sale and leaseback	operational management	10,299	10,299	0
Agricultural land	operational management	58	58	0
Apartment house "Sequoia 2" - Borovetz	for sale	1,825	1,825	0
Office building 1 - Business Park Sofia	operational management	7,583	7,554	29
Kambanite Office Building	in construction	9,807	4,541	5,266
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		49,980	37,806	5,295

* 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 30th September 2015 is EUR 1.19 million.

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.

The tenant paid all amounts due for the rent of both stores in the last quarter. During the period BREF performed some repairs of the cooling system of the store in Sofia.

2.3 Project – Agricultural Land

The total agricultural land owned by BREF as of the end of the third quarter is 404.6 dka, of which 228.6 dka are subject of litigation. The rented out lands are 149.1 dka or 36.8% from the total land. The average annual rental price is about BGN 44.62 per dka.

Project parameters:

Agricultural land	
Total owned lands	404 dka
Investment	EUR 58,000
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 quarter no apartments were sold and as of the end of September 2015 the sold apartments are 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 1.82 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.

Rental agreements for more than 3,800 square meters, or 60% of the lettable area in the building were renegotiated in the last quarter. 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 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 next quarter.

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	96.8%

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 2014, 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 13,486 sq.m., of which the leasable area will be 10,123 sq.m., the restaurant will have an area of 396 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 7.5 million.

By the end of September 2015 90% of the construction works for the shell construction of the building were completed and the project is expected to be issued Act 14 in the middle of the next quarter. The procedure for appointment of contractors for the finishing works is also under way and the works on the facade, water-supply and sewerage and electricity systems will start in the next quarter.

Numerous meetings with potential tenants were held during the reporting period and negotiations for the execution of the first rental contracts are already under way. The process of promotion of the new building and gaining a share on the office market is also under way.

Project parameters:

Office Building Kambanite	
Built-up area	13,486 sq.m
Leasable office area	10,123 sq.m.
Parking lots	215
Construction budget	EUR 7.5 M
Status	in construction

2.7 Project – Seaside Holiday Village

The project envisages the construction of Seaside Holiday Village on the Bulgarian shore. 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 Tarnovo. 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 41,480 sq.m. Out of that area, 33,666 sq.m. are included in the new development plan for the territory, the procedure for approval whereof was initiated by Sofia Municipality as early as 2008. Pursuant to Judgment No. 7681 of the Supreme Administrative Court dated: 5th June 2014 all objections to the new development plan were rejected and it entered in force. According to this plan the zoned properties were transformed into new properties with new borders and area. According to the plan the old properties of the Fund will be replaced by new ones of the same value, with a total area of 25,288 sq.m. The ownership documents for the latter are expected to be issued by Mladost Municipality in Sofia in the nearest future. 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 33,102 sq.m., out of which 25,288 sq.m. zoned and 7,814 sq.m. unzoned, intended for green areas.

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.

3 Financial Highlights Q3/ 2015

3.1 Summarized Financial Statements

The following financial statements are based on non-audited financial statement for the third quarter of 2015.

Table 3 – Balance sheet as of 30th September 2015, 30th June 2015 and 31st March 2015.

(All amounts in EUR '000)	30.09.2015	30.06.2015	31.03.2015
ASSETS			
Non-current Assets			
Investment property	30,981	30,981	30,981
Cost for acquisition of fixed assets	2,111	558	216
Plant and equipment	0	0	0
Intangible assets	1	2	2
Restricted cash	360	360	360
Total Non-current Assets	33,453	31,901	31,559
Current Assets			
Investment property held for sale	806	806	806
Trade receivable	34	32	74
Cash and cash equivalents	2,856	3,882	4,267
Other current assets	102	12	7
Deferred expenses	11	12	15
Total Current Assets	3,809	4,744	5,169
TOTAL ASSETS	37,262	36,645	36,728
EQUITY AND LIABILITIES			
Equity			
Share capital	30,908	30,908	30,908
Share premium	3,244	5,016	5,016
Retained earnings	642	(1,357)	(1,588)
Total equity	34,794	34,566	34,336
Non-current liabilities			
Interest bearing loan	246	487	725
Derivative financial instrument	34	48	64
Other long-term liability	283	283	283
Total Non-current liabilities	563	818	1,072
Current liabilities			
Current part of non-current liabilities	952	940	927
VAT payable	22	0	59
Payables to management company	709	105	105
Payables to the personnel and SIC	1	1	4
Trade and Other current liabilities	221	216	225
Total Current liabilities	1,905	1,261	1,320
Total liabilities	2,468	2,078	2,392
TOTAL EQUITY AND LIABILITIES	37,262	36,645	36,728

Table 4 – P&L statement for the first three quarters and accumulated since the beginning of 2015

(All amounts in EUR '000)	Q3 - 2015	Q2 - 2015	Q1 - 2015	H1+Q3 - 2015
Income from sale of assets	-	-	132	132
Rental income	511	509	508	1528
Revenue from interest and other financial revenues	2	1	3	5
Other financial income	14	16	18	48
Other Income	0	2	7	9
Total Revenue	526	528	668	1,722
Value of sold assets	-	0	(167)	(167)
Interest expense	(18)	(22)	(25)	(65)
Management fees	(129)	(129)	(128)	(386)
Materials expense	(2)	(2)	(2)	(5)
BOD and employees salaries expense	(19)	(19)	(19)	(57)
Loss from fair value adjustments	-	-	-	0
Other expenses	(130)	(126)	(143)	(399)
Total expenses	(299)	(297)	(484)	(1,079)
Profit/(loss) for the period	228	231	184	642
Weighted average number of shares in the quarter (in thousands)	60,450	60,450	60,450	60,450
Earnings per share - basic and diluted	0.004	0.004	0.003	0.011

3.2 Liquidity

Table 5 – Liquidity ratios as of 30th September 2015, 30th June 2015 and 31st March 2015.

Liquidity Ratios	30.09.2015	30.06.2015	31.12.2008
Current ratio	2.00	3.76	4.82
Quick ratio	1.58	3.12	3.89
Cash ratio	1.50	3.08	2.92

A double reduction of the liquidity ratios was observed during the last quarter. The reasons for this reduction were, on one side, the accrued ongoing payments to construction companies in connection with the construction of the new building and, on the other, the considerable reduction of cash – also a result from the investment of the Company in the new office building. Despite the decrease, BREF still maintains good liquidity, which will allow developing its business unhindered until the end of the year. The current liquidity at the end of the reporting period is 2.00 and the absolute liquidity is 1.50. During the next reporting period the liquidity of the Company is expected to continue to fall as a result of the ongoing construction of the new building.

■ Internal Sources of Liquidity

The internal sources of liquidity demonstrated multidirectional movement during the last quarter. The short-term assets decreased, while the short-term liabilities increased. The decreasing cash in the assets and the increased liabilities to the construction companies for the new building were the reason for those changes.

○ **Short-term (current) assets**
Table 5A – Current assets as of 30th September 2015, 30th June 2015 and 31st March 2015.

Liquidity sources	30.09.2015	%	30.06.2015	%	31.03.2015
Current Assets					
Investment property held for sale	806	21.15%	806	16.99%	806
Trade receivable	34	0.90%	32	0.68%	74
Cash and cash equivalents	2,856	74.98%	3,882	81.83%	4,267
Other current assets	102	2.68%	12	0.25%	7
Deferred expenses	11	0.28%	12	0.26%	15
Total Current Assets	3,809	100%	4,744	100%	5,169

The ongoing construction works for the new BREF building runs alongside with the tendency of decreasing cash of the Company. As a result of this the total amount of the current assets is also decreasing. Their amount by the end of the third quarter dropped by 19.7%, this reaching EUR 3,809 thousand. The main structure of the current assets remained the same, provided the cash had the greatest share and the share of the investment properties recorded a slight growth. Following the last changes, the cash amounts to EUR 2,856 thousand and their share of the current assets is 74.98%. The tendency of decreasing cash and overall decrease of the current assets will continue with the progress of the construction works.

The investment properties, whose share was 21.15%, were second and their value remained the same, as compared to the prior quarter. The increase of their share is a result of the decrease of the total amount of the current assets solely. This item contains the book value of the residential building “Sequoia 2” in Borovets resort.

The Other receivables item comes next, accounting for 2.68%. The main entry under this item was the assessed VAT refundable, accrued in the course of the construction works of the new building. The amount of this item will continue to grow until complete refund of the VAT.

The trade receivables and interest kept their amount as compared to the prior quarter, provided that this item contained mainly current receivables from tenants and accrued interest under deposits. Significant changes are not expected to occur during the next period, provided that increase is likely to occur in case of advance payment for services to be received later in the year.

During the next reporting periods, as a result of the continuing construction of the new building of the Company, the cash is expected to continue to decrease, which will have an impact on the amount of the total current assets.

 ○ **Short-term (current) liabilities**
Table 5B – Current liabilities as of 30th September 2015, 30th June 2015 and 31st March 2015.

Liquidity sources	30.09.2015	%	30.06.2015	%	31.03.2015
Current liabilities					
Current part of non-current liabilities	952	49.99%	940	74.53%	927
VAT payable	22	1.15%	0	0.00%	59
Payables to management company	709	37.21%	105	8.31%	105
Payables to the personnel and SIC	1	0.03%	1	0.04%	4
Trade and Other current liabilities	221	11.62%	216	17.11%	225
Total Current Liabilities	1,905	100%	1,261	100%	1,320

During the last quarter the amount of the short-term liabilities increased by 51.05%, reaching at period end EUR 1,905 thousand. The main reason for this increase was the increased payables to the management company and to the construction companies for the new building respectively. The structure of the current liabilities changed as the share of the payables to the management company increased and the share of the payables under the investment loan of the Company decreased. The payments for the year to come for the principal and the interest under the investment loan for the project Mr.Bricolage continue to have the greatest share, 49.99%, of

the current liabilities, recording a slight growth. 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. The increase is expected to continue until the end of the year and the total amount of the liabilities under the loan will decrease in the next year, as a result of the expiry of the loan period.

The payables to the management company, an intermediary for the construction of the new building, were second, amounting to 37.12%. The observed increase was a result mainly of the invoices of the construction companies under the new project issued at the end of the period, which were paid in the early October. The accumulation of retained funds, namely the performance guarantees, additionally contributed to the increase of the amount under this item.

The trade and other liabilities remained the same as in the prior period, their share in the current assets decreasing to 11.62%. The main entries in this item were the liabilities to the tenants of the Company related to rents paid in advance or provided security deposits under the rental agreements in Building 1 in Business Park Sofia and the provisions for agricultural land court litigations set aside by the Fund.

The next reporting period will continue with accumulation of liabilities related to 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 until the end of the year and for the next year BREF intends to secure additional liquidity through bank loan. 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.

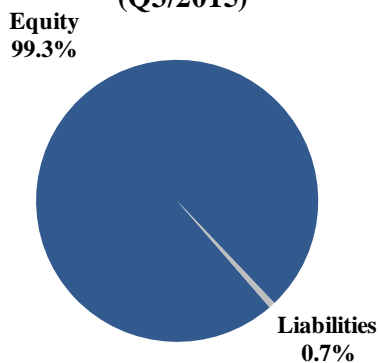
3.3 Capital resources

At the end of September 2015 the long-term capital of BREF, both equity and borrowed capital, recorded a decrease of 0.04% to EUR 35,040 thousand. This change is a result of the paid principal under the investment loan of the Fund, which partially is compensated by the realised profit for the period.

The past quarter saw again a decrease in the share of the borrowed capital, which reached 0.7%, as compared to 1.4% 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 (Q3/2015)



BREF Long-term Capital Structure (Q2/2015)

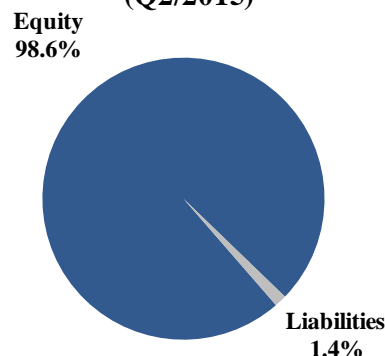


Table 6 –Leverage ratios

Leverage ratios	30.09.2015	30.06.2015	31.03.2015
Debt-to-Equity	0.07	0.06	0.07
Non-Current Assets-to-Equity ratio	0.96	0.92	0.92
Long-term-Debt-to-Non-Current-Asset ratio	0.01	0.02	0.02

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

■ Equity

At the end of September 2016 the equity of BREF is EUR 34,794 thousand, which represents an increase of 0.66% as compared to the prior quarter. The recorded increase is wholly due to the registered by the Fund profit for the period.

Table 7 – Total equity as of 30th September 2015, 30th June 2015 and 31st March 2015.

Equity (in thousands)	30.09.2015	30.06.2015	31.03.2015
Share capital	30,908	30,908	30,908
Share premium	3,244	5,016	5,016
Retained earnings	642	(1,357)	(1,588)
Total equity	34,794	34,566	34,336

The structure of the equity of the Company underwent a change during the last quarter following the General meeting of the shareholders held on 16 July 2015. The meeting resolved to cover the loss from the prior year from the retained earnings from prior years and partially on account of the Share premium. As a result of this, the amount of the Premium reserves decreased by EUR 1,772 thousand and the amount of the accumulated profit increased in financial statements of the Fund. The offset itself has a purely accounting function and does not affect the total amount of the Company equity.

■ 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 September 2015 totals EUR 1.19 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 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 repairs of the common parts are planned.

For financing its construction works in 2016 BREF intends to use its currently available capital resources and to utilize new bank loan.

3.4 Asset structure

The amount of the BREF assets by the Q3 end increased by 1.68% to EUR 37,262 thousand, as compared to the end of the prior quarter, when the amount of the assets was EUR 36,645 thousand. The recorded increase was a result of the accumulated construction costs for the new building mainly, which were not paid during the period of preparation of the report and were recorded as liabilities in the current liabilities of the Company.

Table 6 – Asset structure

Asset structure (thousand EUR)	30.09.2015	% share	30.06.2015	% share	31.03.2015
Non-current assets incl.	33,453	89.78%	31,901	87.05%	31,559
- total property	30,981	83.14%	30,981	84.54%	30,981
- cost for acquisition of fixed assets	2,111	5.66%	558	1.52%	216
Current assets incl.	3,809	10.22%	4,744	12.95%	5,169
- trade receivable	34	0.09%	32	0.09%	74
- investment property held for sale	806	2.16%	806	2.20%	806
- cash and cash equivalents	2,856	7.66%	3,882	10.59%	4,267
Total assets	37,262	100%	36,645	100%	36,728

The change in the structure of the assets from the prior quarter continued in this quarter as well, with gradual increase in the share of the long-term assets, reaching 89.78%, as compared to 87.05 % in the end of the previous quarter. The major increase was accounted in the expenses on acquisition of fixed assets, where the accrued constructions expenses for the new building were accounted, which in turn increased also the amount of the long-term assets and decreased the short-term accordingly. During the next quarter, along with the accumulation of expenses on the construction, the share of cash is expected to continue to drop, while the share of expenses on acquisition of fixed assets is expected to grow.

3.5 Financial Results

The operation of the Company during the third quarter of 2015 was focused mainly on the management of projects generating income for the Fund and the construction of the new building.

■ Revenue from operations

During the reviewed quarter the accounted revenue was EUR 526 thousand, or 0.29% less than the prior quarter. The main reason for this result was the decreasing income from the derivative financial instrument and the absence of other income.

Table 9 – Realized revenues by quarters and accumulated since the beginning of 2015.

Revenue (in thousand EUR)	Q3 - 2015	Q2 - 2015	Q1 - 2015	H1+Q3 - 2015
Income from sale of assets	0	0	132	132
Rental income	511	509	508	1,528
Revenue from interest and other financial revenues	2	1	3	5
Other financial income	14	16	18	48
Other Income	0	2	7	9
Total revenue	526	528	668	1,722

The greatest share, or 97.08%, during the past quarter was again that of the Income from rent. Their amount remained at EUR 511 thousand, provided that minor changes were accounted as a result of the indexations of some of the rents. The income from rent is expected to keep the same level in the next quarter as in the prior one.

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

The income from interest also kept their amount, provided that their amount is expected to continue to decrease with the spending of the available cash of the Company.

The next quarter is associated with expectations that the income from rent will keep its level and that if there is no income from sale of properties, the total amount of the income will

remain at the same levels. The income can increase in case of positive final-year revaluation of the properties, traditionally made at the end of the year.

■ Expenses from operations

During the past quarter the total expenses of BREF are within the range of the previous quarter.

Table 10 – Realized expenses by quarters and accumulated since the beginning of 2015.

Expenses (in thousand EUR)	Q3 - 2015	Q2 - 2015	Q1 - 2015	H1+Q3 - 2015
Value of sold assets	0	0	(167)	(167)
Interest expense	(18)	(22)	(25)	(65)
Management fees	(129)	(129)	(128)	(386)
Materials expense	(2)	(2)	(2)	(5)
BOD and employees salaries expense	(19)	(19)	(19)	(57)
Other expenses	(130)	(126)	(143)	(399)
Total expenses	(299)	(297)	(484)	(1,079)

In the third quarter of 2015 the largest share, 43.66%, of the expenses was that of the Other expenses item. The accounted minimum increase was a result of additional expenses on the maintenance of some of the properties of the Company. The largest share of this item was taken up by the property taxes. Other significant expenses under this account included expenses for external property management services, bank charges, and other administrative expenses.

The fee of the management company was second, accounting for 43.32% of the expenses. This item of the expenses remained at the same level, as the prior quarter, which is expected as a trend in the future accounting periods.

The expenses on interest, amounting to 6.16%, were next and they included 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.

The expenses in the next quarter will largely depend on the expenses on the maintenance of the properties of the Company and the specific expenses related to the yearly closing of the financial statements of the Fund and the accounting of property revaluations, if any.

■ Financial result

In the third quarter of 2015 the Company realised a profit of EUR 226 thousand and the main contributor to this result was the income from rent. The financial result during the next quarter is expected to be at the same level, provided that larger deviations are possible in case of sale of properties or due to annual property revaluations.

Table 11 – Financial result by quarters and accumulated since the beginning of 2015.

Financial Result	Q3 - 2015	Q2 - 2015	Q1 - 2015	H1+Q3 - 2015
Revenues	526	528	668	1,722
Expences	(299)	(297)	(484)	(1,079)
Net profit/loss for the period	228	231	184	642

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

Results per share (EUR '000)	2015**	2014	2013	2012
Earnings	642	(1,893)	862	879
Earnings per share (EPS)	0.011	-0.031	0.014	0.015
Net asset value (NAV)	34,794	34,152	36,045	37,006
Common shares outstanding	60,450	60,450	60,450	60,450
NAV per share	0.576	0.565	0.596	0.612
Dividend per share	0.0000	0.0000	0.0122	0.0152
Share fair value*	0.576	0.565	0.609	0.627

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

** Net asset value for 2015 is per non-audited financial statements, while for 2012-2014 according to audited financial statements

According to the non-audited financial statements of the Fund, the net asset value per share (NAV) at the end of September 2015 increased from EUR 0.565 per share to EUR 0.576 per share. This increase is due to the realized by the Fund 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, bearing 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 September 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, 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 until the end of the year and new borrowed capital could be used during the next year.

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 Share performance

In the third quarter of 2015 the shares of Bulgarian Real Estate Fund recorded decrease of 3.23%, while on an yearly basis the price dropped by 19,64%. The fluctuating performance of the shares in the last year is still a result of 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 special purpose vehicles since the beginning of 2015.

In comparison, in the third quarter of 2015 the SOFIX index recorded a decrease of 8,84%, while the broad BG BX40 lost 7,59% of its value. The sector-specific BGREIT, reflecting the performance of the special purpose vehicles, dropped by 0.92% during the same period. 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 Eurozone and on the developing markets, which are the main trade partners of Bulgaria.

Summarized trading details for the 52 week period – 1st October 2014 – 30th September 2015:

- Opening Price – BGN 0.562 (1 October 2014)
- Closing Price – BGN 0.450 (30 September 2015)
- Highest Price – BGN 0.587 (8 December 2014)
- Lowest Price – BGN 0.446 (26 June 2015)
- Total Trading Volume – 8,086,563 shares
- Turnover for the period – BGN 3,899,994 (EUR 1,482,743)
- Weighted average price – BGN 0.482
- Market Capitalisation (30.09.2015) – BGN 27,202,500 (EUR 13,908,417)

BREF Share Price Performance
(01.10.2014 - 30.09.2015)

