

“Bulgarian Real Estate Fund”

Summary Annual Report 2014



21 April 2015

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1 Overview of the Fund

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

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

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

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

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

2 Portfolio

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

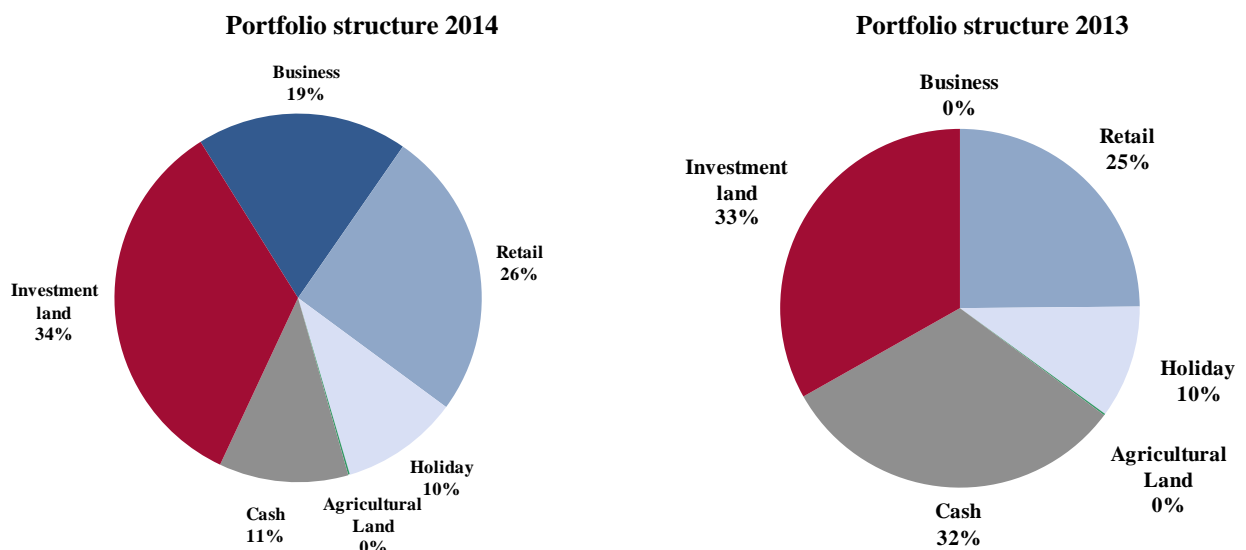
2.1 Portfolio structure

The main event during the past year, which impacted on the portfolio of BREF, was the purchase of office premises and parking spaces in Building 1 in Business Park Sofia. As a result of those actions, the portfolio of the Fund once again includes business properties, which is mainly at the expense of cash. In the new structure of the portfolio the largest share of 34% still belongs to the investment properties, with the commercial properties coming second with 26%, followed by the business properties with 19%. The key highlights during the past year were as follows:

- Acquisition of office premises and parking lots in Building 1 in Business Park Sofia
- Organizing the facility and property management of the new properties and performing capital expenditures in them;
- Completing the regulation and start of a new development project for office building on the Rind Road plots in Sofia;
- Regulation of the plots in Mladost IV in Sofia;
- Sale of an apartment in Apartment house Sequoia 2 – Borovetz;
- Participating in an initiative for construction of road infrastructure to the plots on the seaside;
- Performing current repairs in Mr.Bricolage stores in Varna and Sofia;
- Assessment of investment opportunities on the office and residential markets in Sofia;
- Searching for new investment projects of BREF.

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

Figure 1. Investment allocation in types of market sector



The Fund's last 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 31.12.2014	Future investments
Current projects				
"Mr. Bricolage" - sale and leaseback	operational management	10,293	10,293	0
Agricultural land	operational management	60	60	0
Apartment house "Sequoia2" - Borovetz	for sale	1,859	1,859	0
Office building 1 - Business Park Sofia	operational management	7,601	7,489	112
Investment plots in Sofia - Ring road*	construction permission	2,560	2,560	n.a
Pipeline projects				
Seaside Holiday Village	suspended	9,203	2,319	0
Investment plots near Veliko Tarnovo*	suspended	262	262	n.a
Investment plots near Vidin*	suspended	301	301	n.a
Investment plots in Sofia - Mladost IV*	suspended	10,664	10,672	n.a
Total		42,803	35,815	112

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

From the above-mentioned projects "Mr. Bricolage" – sale and leaseback, Office building 1 in Business Park Sofia and Agricultural land are currently operational. The plots in Sofia on the Ring road are at the stage of construction permission, as the 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, Investment plots near Veliko Tarnovo and Vidin, and in Sofia in Mladost IV district.

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

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

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

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

Project parameters:

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

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

According to the current clauses in 2014 the total monthly rent was indexed up to EUR 93,786. The next rent indexation will happen at the beginning of 2015.

During the past year the tenant paid all amounts due for the rent of both stores. The regular amounts for the insurance and the property taxes of the stores were also paid in time.

In 2014 some current repairs were done in both stores. In Varna the parking lot paving was repaired, while in Sofia the HVAC systems as well as the gas system of the store were repaired. During the past year, as a result of the hail in July, the roof of the Sofia store was damaged. In September the roof was repaired, with the expense being covered entirely by the insurance of the property.

2.3 Project – Agricultural Land

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

Project parameters:

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

2.4 Project – Apartment house “Sequoia 2” - Borovetz

In 2007 BREF became an owner of “Sequoia 2” apartment house located in the oldest ski resort in Bulgaria – Borovetz. The total built-up area is 3,527.30 sq.m.

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

During the past year one apartment was sold and as of the end of December 2014 a total of eight apartments had been disposed of. In January 2015 BREF sold one more apartment, which increased the sold apartments up to nine. A campaign for selling the rest of the apartments is in progress.

Project parameters:

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

2.5 Project – Office building 1 – Business Park Sofia

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

Building 1 in Business Park Sofia was built in 2005 and after the Company had purchased the properties, it decided to make some major improvements to the building for the purpose of increasing the quality of the premises offered for rent. To that end a new diesel generator was purchased and installed in the building and the electric power, provided through CEZ, was increased. At the end of the year an overhaul of the premises on floor 1 in the south wing of the building was performed, such premises having been rented out to Bulpros Consulting AD in November. Currently BREF is negotiating the renting out the rest of the unoccupied office

premises, and in 2015, in order to meet the new legislative requirements in Bulgaria, a replacement of the chillers in the building is planned.

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 – Investment plots in Sofia – Ring road

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

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

Project parameters:

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

*Preliminary estimation

2.7 Project – Seaside Holiday Village

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

As a result of the world economic crisis, the current market conditions in the holiday resort sector and the large supply of properties on the Bulgarian Seacoast, BREF suspended the project. During the year was completed the construction of the road infrastructure within the area, which initiative was supported by BREF.

Project parameters:

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

2.8 Project – Investment land plots near Veliko Turnovo

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

Currently the activity of the Fund regarding the future development of the property is suspended until more favorable market conditions arise. Meanwhile during the year the Fund rented out for temporary use the property as agricultural land to a local farmer. In March 2015 the Fund sold 24,445 sq.m. of the property, after which the plots owned by BREF are reduced to 178,803 sq.m.

Project parameters:

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

2.9 Project – Investment plots near Vidin

In 2006 BREF won in a tender procedure, executed by the Ministry of Defense, a land plot with total size of 86,008 sq.m. The acquired property is located near the ferry port of Vidin on the main road connecting the city to the ferry. Another key highlight is the proximity of the land plot to the newly built bridge over the Danube River.

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

Project parameters:

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

2.10 Project – Investment plots in Sofia – Mladost IV

At the end of 2014 BREF was 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 and 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 2014

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 2014 and 2013.

Table 3 – Balance sheet as of 31st December 2014 and 31st December 2013.

(All amounts in EUR '000)	31.12.2014	31.12.2013
ASSETS		
Non-current Assets		
Investment property	31,202	25,417
Equipment	1	2
Intangible assets	2	-
Restricted cash	360	-
Total Non-current Assets	31,565	25,419
Current Assets		
Investment property held for sale	827	1,210
Trade and other receivables	47	147
Cash and cash equivalents	4,229	13,073
Deferred expenses	12	5
Total Current Assets	5,115	14,435
TOTAL ASSETS	36,680	39,854
EQUITY AND LIABILITIES		
Equity		
Share capital	30,907	30,907
Share premium	5,016	5,016
Retained earnings	(1,771)	122
Total equity	34,152	36,045
Non-current liabilities		
Interest bearing loan	960	1,864
Derivative financial instrument	81	164
Other long-term liability	283	-
Total Non-current liabilities	1,324	2,028
Current liabilities		
Current part of non-current liabilities	915	867
Provisions for dividends due	-	740
Trade and other current liabilities	289	174
Total Current liabilities	1,204	1,781
Total liabilities	2,528	3,809
TOTAL EQUITY AND LIABILITIES	36,680	39,854

Table 4 – P&L statement for 2014 and 2013

(All amounts in EUR '000)	2014	2013
Income from sale of assets	41	-
Rental income	1,550	1,100
Interest income	190	742
Gain on derivative financial instrument	83	126
Net gains from fair value adjustments	-	39
Other Income	46	48
Total Revenue	1,910	2,055
Value of sold assets	(54)	-
Interest expense	(141)	(182)
Management and success fees	(543)	(553)
Direct operating expenses arising from properties	(470)	(301)
BOD remunerations	(50)	(46)
Employee benefit costs	(25)	(13)
Net loss from fair value adjustments	(2,369)	-
Other expenses and foreign exchange differences	(151)	(98)
Total expenses	(3,803)	(1,193)
Profit/(loss) for the period	(1,893)	862
Weighted average number of shares in the year (in thousands)	60,450	60,450
Earnings per share - basic and diluted	(0.031)	0.014

3.2 Liquidity

Table 5 – Liquidity ratios as of 31st December 2014 and 31st December 2013.

Liquidity Ratios	31.12.2014	31.12.2013
Current ratio	4.25	8.10
Quick ratio	3.56	7.42
Cash ratio	3.51	7.34

After the purchase of new properties and the payment of the dividends for 2013, all liquidity ratios of the Company have decreased. This change is caused by the considerably lower amount of current assets at the end of 2014, compared to the previous year. After the changes, the ratios are still high, with current liquidity reaching 4.25 and cash liquidity reaching 3.51. Our expectation for the next year is for the liquidity ratios to keep declining after the start of the construction works for the new building of the Fund on the Ring Road in Sofia.

■ Internal Sources of Liquidity

In 2014, despite the decreases in short-term assets and liabilities, Bulgarian Real Estate Fund (BREF) maintains considerable external liquidity sources.

○ **Short-term (current) assets**

Table 5A – Current assets as of 31st December 2014 and 31st December 2013.

Liquidity sources	31.12.2014	%	31.12.2013	%
Current Assets				
Investment property held for sale	827	16.17%	1,210	8.38%
Trade and other receivables	47	0.92%	147	1.02%
Cash and cash equivalents	4,229	82.68%	13,073	90.56%
Deferred expenses	12	0.23%	5	0.03%
Total Current Assets	5,115	100%	14,435	100%

The total amount of short-term assets decreased by 64.56%, reaching EUR 5,115 thousand, compared to EUR 14,435 thousand a year earlier. The main reasons for this decrease are the lower amount of cash and the smaller size of the properties held for sale. These changes do not alter significantly the assets structure, with cash having the largest share of 82.68% once again. Its amount decreased by 67.65%, reaching EUR 4,229 thousand at the end of the year, compared to EUR 13,073 thousand a year earlier. This decrease is due to the payments on the transactions for the purchase of new properties and the dividends paid for 2013.

The investment properties held for sale come second with 16.17%. This reflects the book value of the residential building “Sequoia 2” in the Borovets resort. This decrease in value is the result of annual revaluations at the end of the year and of the sale of an apartment, carried out during the autumn. During the subsequent report periods, in the event of sales of new apartments, the total book value of the project is expected to decrease.

The third largest liquidity source during this year was trade receivables and interest receivables. Their value decreased by 68%, i.e. down to EUR 47 thousand from EUR 147 thousand a year earlier. This decrease is due to the considerably lower interest, received on deposits of the Company, which only amounts to EUR 1.5 thousand, as well as to the write-off of prescribed receivables from past years, related to the construction works for the Kambani Business Center.

The management of the Company expects the amount of the current assets to keep decreasing with the start of the construction works for the new building of the Fund and the payment of the respective costs.

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

Table 5B – Current liabilities as of 31st December 2014 and 31st December 2013.

Liquidity sources	31.12.2014	%	31.12.2013	%
Current liabilities				
Current part of non-current liabilities	915	76.00%	867	48.71%
Provisions for dividends due	-	0.00%	740	41.58%
Trade and other current liabilities	289	24.00%	174	9.76%
Total Current Liabilities	1,204	100%	1,780	100%

The total amount of current liabilities decreased by 32.38%, reaching EUR 1,204 thousand, compared to EUR 1,780 thousand a year earlier, mainly due to the lack of a provision for dividends payable for 2014. That also led to a change in the structure of the liabilities, with the shares of the other two items increasing significantly, entirely at the expense of the missing dividends deductions.

No provisions were made for dividends for 2014, because the financial result of the Fund was negative and although the end result, after offsetting the revaluations and transforming the financial result pursuant to Article 10 of the Special Investment Purpose Companies Act, was a profit, the Company did not meet the requirements in Article 247a, Paragraph 1 of the Commerce Act.

After the results achieved at the end of 2014, short-term loans and interest charged was the item with the biggest share of 76%. This item reflects the amounts payable on the principal of the

investment loan of the Fund for the next one-year period and the interest charged on this loan at the end of the year. The slight increase in this item is due to the increasing amount of the monthly payments on the principal of this loan. We expect this amount to increase during the next reporting period, with the loan expected to be completely paid off at the end of 2016.

At the end of 2014 Trade and other payables registered an increase of 66.47%, which also leads to a further increase in their share in the structure of the current liabilities. This increase in the trade payables was due to the guarantee deposits, received from leaseholders from the newly-acquired office building, and pre-paid rents, which will be recognized in the Company's revenues after the expiry of the respective lease periods.

During the next reporting period BREF expects the value of the short-term liabilities to keep increasing, due mainly to the expected accumulation of payables in connection with the construction of the new building on the Ring Road in Sofia and the increasing current liabilities of the Fund in connection with the repayment of the investment loan on the Mr. Bricolage project.

■ **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 year. From viewpoint of allocation of free resources for project implementation, BREF will focus mainly in the construction of the new building, in current repairs in the existing buildings and in searching for new investment projects and currently does not intend to attract new funds from external sources.

3.3 Capital resources

At the end of December 2014 the long-term capital of BREF, both equity and borrowed capital, recorded a decrease of 7.38% to EUR 35,112 thousand. This change is a result of the realised loss for the period and the paid principal under the investment loan of the Fund.

The decrease in the equity and in long term borrowed capital changes the structure of the capital, as the share of the borrowed capital decreases to 2.7%, as compared to 4.9% at the end of the preceding year. The distribution between equity and borrowed funds is presented in the figures below.

Figure 2: Allocation between equity and external financing

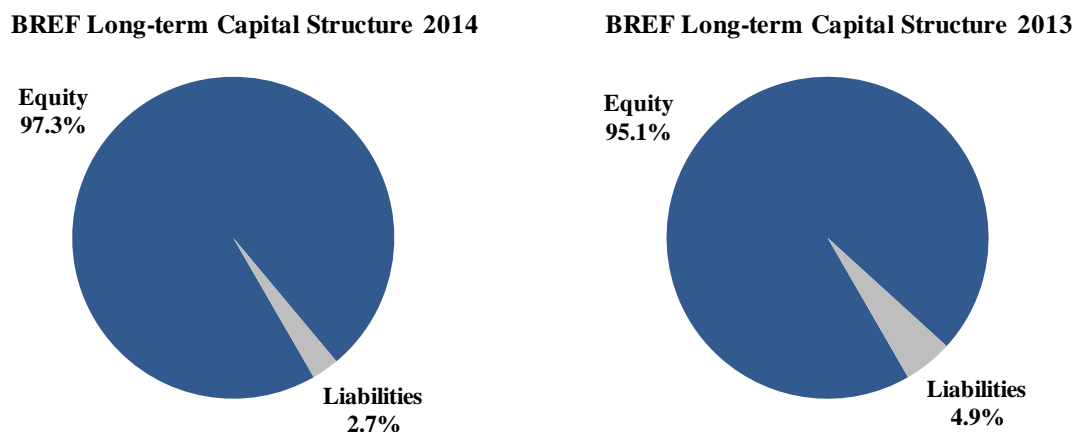


Table 6 – Leverage ratios

Leverage ratios	31.12.2014	31.12.2013
Debt-to-Equity	0.07	0.11
Non-Current Assets-to-Equity ratio	0.92	0.71
Long-term-Debt-to-Non-Current-Asset ratio	0.03	0.07

*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 2014 the equity of BREF is EUR 34,152 thousand, which represents a decrease of 5.25% as compared to 2013. The recorded decrease is wholly due to the registered by the Fund loss for the period, the main reason for which is the negative revaluation of assets at the end of the year.

Table 7 – Total equity as of 31st December 2014 and 31st December 2013.

Equity (in thousands)	31.12.2014	31.12.2013
Share capital	30,907	30,907
Share premium	5,016	5,016
Retained earnings	(1,771)	122
Total equity	34,152	36,045

■ 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 2014 totals EUR 1.87 million. The term of the loan is by December 2016. The paid interest, both interest and interest SWAP, is 5.64%. No new investment loans were utilized during the past year.

■ Capital expenses during the next periods under review

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

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

3.4 Asset structure

The amount of the BREF assets by the end of 2014 dropped by 7.96% to EUR 36,680 thousand, as compared to the end of the prior year when the amount of the assets was EUR 39,854 thousand. The recorded decrease was mainly a result of the paid dividend for 2013 and the net loss from revaluation of assets of the Fund.

Table 6 – Asset structure

Asset structure (thousand EUR)	31.12.2014	% share	31.12.2013	% share
Non-current assets incl.	31,565	86.1%	25,419	63.8%
- total property	31,202	85.1%	25,417	63.8%
Current assets incl.	5,115	13.9%	14,435	36.2%
- trade receivable	47	0.1%	147	0.4%
- investment property held for sale	827	2.3%	1,210	3.0%
- cash and cash equivalents	4,229	11.5%	13,073	32.8%
Total assets	36,680	100%	39,854	100%

On the other hand, the transaction for the purchase of Building 1 in Business Park Sofia had the greatest impact on the assets structure. As a result of the purchases made, the long-term assets increased in value, while the cash decreased in value. That in turn led to an increase in the share of long-term assets to 86.1% and a decrease in the share of short-term assets to 13.9%.

During the past period the short-term assets structure did not change significantly, with cash having the largest share once again, followed by investment properties held for sale and trade receivables and interest.

Next year, as the construction works on the new building of the Fund progress, the long-term assets of the Company are expected to increase further, while the cash is expected to decrease further.

3.5 Financial Results

The activity of BREF in 2014 was mainly focused on the current management of the projects generating revenues for the Company, the development of an engineering design for the new building on the Ring Road in Sofia and the search for new investment projects.

■ Revenue from operations

Over the past year the revenues of the Fund decreased to EUR 1,910 thousand, which constitutes a decrease by 7.07%, compared to the previous year. This result is mainly due to the decreased interest revenues, which are partially offset by the improved rent revenues.

Table 9 – Realized revenues in 2014 and 2013.

Revenue (in thousand EUR)	2014	% share	2013	% share
Income from sale of assets	41	2.2%	-	0.0%
Rental income	1,550	81.2%	1,100	53.5%
Interest income	190	9.9%	742	36.1%
Gain on derivative financial instrument	83	4.3%	126	6.1%
Net gains from fair value adjustments	-	0.0%	39	1.9%
Other Income	46	2.4%	48	2.3%
Total revenue	1,910	100%	2,055	100%

The total revenue structure changes, with the share of the rent revenues (81.2%) increasing more and more, entirely at the expense of the interest revenues. Two sales of properties were also carried out during the year, which further changes the revenue structure.

In 2014 the rent revenues registered an increase of 40.96%, reaching EUR 1,550 thousand. That increase was mainly due to the acquisition over the course of the year of office premises and parking spaces in Building 1 of Business Park Sofia and the rent revenues, generated from these properties. The annual indexation of the rents for the Mr. Bricolage stores further contributed to the revenue increase. In 2015 the rent revenues are expected to increase even further with the reporting of a full one-year period of rents, obtained from the newly-acquired properties in 2014.

Another significant change in 2014 was observed in the interest revenue item. As a result of the considerable decrease in the available cash and the conservative policy for its management during the year, the interest revenues decreased by 74.43%, i.e. to EUR 190 thousand. During the next year, with the start of the construction works for the new building of BREF and the related spending of more cash, the revenues from deposit interests are expected to keep decreasing.

The revenues from the sale of properties include the sale of one apartment in the Borovets resort and the sale of a property from the Investment Plots in Mladost IV project in Sofia. In 2015, as a result of the sales of properties during the first quarter of the year, the revenues from sales of properties are expected to increase.

The Other Revenues item for this year reflects mainly the revenues from insurance compensations, related to the refunds that the Company obtained for the repairs of the roof of the Mr. Bricolage store, damaged by the heavy hails in the area during the year.

During the next year the Fund expects the total revenue to increase as a result of the additional revenue from rents and the sales of properties, carried out during the year.

■ Expenses from operations

Unlike the revenues, the expenses in 2014 registered a significant increase of 218.6%, reaching EUR 3,803 thousand at the end of the year. This increase was mainly due to the considerable negative revaluations at the end of the year, the larger expenses related to the management of the new properties and the written-out book values of the properties sold during the period under review.

Table 10 – Realized expenses 2014 and 2013.

Expenses (in thousand EUR)	2014	% share	2013	% share
Value of sold assets	(54)	1.4%	-	0.0%
Interest expense	(141)	3.7%	(182)	15.3%
Management and success fees	(543)	14.3%	(553)	46.4%
Direct operating expenses arising from properties	(470)	12.4%	(301)	25.2%
BOD remunerations	(50)	1.3%	(46)	3.8%
Employee benefit costs	(25)	0.6%	(13)	1.1%
Net loss from fair value adjustments	(2,369)	62.3%	-	0.0%
Other expenses and foreign exchange differences	(151)	4.0%	(98)	8.2%
Total expenses	(3,803)	100%	(1,193)	100%

In 2014 the changes in the expenses structure were mainly due to the significant negative revaluations of properties and the larger expenses related to the new assets of the Fund. The largest share of the expenses for this year, i.e. 62.3%, was due to the losses from revaluations of properties. Among them, the revaluations of the properties in Mladost 4 in Sofia and the properties in the Borovets resort had the largest share.

The fee expenses of the managing company came second at 14.3%. The reported decrease in the value of the expenses was the result of the decrease in the net assets of the Fund which are directly related to the remuneration of MNI OOD. For the next year, as a result of the further decrease in the net assets of BREF, the remuneration of the managing company is expected to decrease even further.

Next among the expense items, at 12.4%, are the Direct Operating Expenses arising from Properties. Their increase is mainly due to the properties recently acquired by the Company during the year and the larger tax and property management expenses in connection with them. A further increase of expenses results from the expenses for repairs in some of the properties, made during the year.

In 2014 the share of the Interest Expenses decreased too – that included the interest paid and charged on the loan and the expenses on the interest swap, used in the funding of the Mr. Bricolage project. This item registered a decrease as a result of the decrease in the outstanding principal of the loan taken out. During the subsequent reporting periods the paid interest amount is expected to keep decreasing until the loan on the Mr. Bricolage project is fully repaid.

The Other Expenses item registered an increase of 54.5% during the past year due to the prescribed receivables, written off at the end of the year, which were related to the construction of the Kambanite Business Center. Other expenses, reported in this item, include the administrative expenses, related to the management of the activity of BREF.

During the next year additional expenses in Building 1 in Business Park Sofia are planned, which will increase the property-related expenses even further. On the other hand, the management of BREF does not expect any revaluations of properties during the next year, which will decrease the Company's total expenses.

■ Financial result

During the past year BREF reports a loss in the amount of EUR 1,893 thousand. The main reason for this result is the net loss from revaluations of properties in the amount of EUR 2,369 thousand, reported at the end of the year. If the reported revaluations are not taken into consideration, the Company would have made a profit in the amount of EUR 476 thousand. The expectations for the next reporting period, with the increase in the revenues and the decrease in the expenses, are for the Company to register a profit which is expected to remain stable during the subsequent reporting periods.

Table 11 – Financial result for 2014 and 2013.

Financial Result	2014	2013
Revenues	1,910	2,055
Expences	(3,803)	(1,193)
Net profit/loss for the period	(1,893)	862

In proportion to the average number of shares during the year, the accounting loss results in a loss per share (EPS) in the amount of EUR 0.031. No provisions were made for dividends for this year, because the financial result of the Company was negative and although the end result, after offsetting the revaluations and transforming the financial result pursuant to Article 10 of the Special Investment Purpose Companies Act, was a profit, the Company did not meet the requirements in Article 247a, Paragraph 1 of the Commerce Act.

Results per share (EUR '000)	2014	2013
Earnings	(1,893)	862
Earnings per share (EPS)	(0.031)	0.014
Net asset value (NAV)	34,152	36,045
Common shares outstanding	60,450	60,450
NAV per share	0.565	0.596
Dividend per share	0.0000	0.0122
Fair value per share	0.565	0.609

The net asset value per share (NAV) during the past reporting period decreased from EUR 0.596 per share to EUR 0.565 per share, which constitutes an annual decrease of 5.2%. The registered decrease in the net value per share results mainly from the reported net loss from revaluations of properties and the total loss for the period, resulting therefrom.

■ Potential risks

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

Market Risk

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

diversified in different segments and regions in Bulgaria and therefore they offer favourable conditions for good return in the future.

Interest rate risk

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

Foreign currency risk

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

Liquidity risk

The company is exposed to liquidity risk with regard to paying off its current liabilities. At current, the Fund has enough available funds to finance its operative and investment activity. Considering the funds deposited in bank accounts and the current rental income, the Fund believes that it has enough liquid sources to cover its needs and there is no necessity to borrow from external sources.

Construction risk

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

4 Events after the reporting date

On 28th January 2015 BREF carried out another sale of an apartment in the Sequoia 2 apartment building in the Borovets resort, Samokov municipality. The sale price of the apartment was BGN 19.9 thousand excl. VAT. With this sale the total number of apartments sold under the project amounts to 9.

On 18th March 2015 parts of the properties in the vicinity of Veliko Tarnovo, owned by BREF, were sold too. The total area of the properties sold is 24 445 sq.m. and the total sale price excluding VAT is EUR 112 thousand. After the sale the Fund owns properties with a total area of 178 803 sq.m.

At the beginning of March 2015 the Company received a construction permission for the new building on the Ring Road in Sofia. Meanwhile a tender was held in order to select a project manager company which would organize the construction works for the new building. More tenders for the selection of contractors for the construction works in the project are planned.

5 Share performance

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

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

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

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

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

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

