

# **“Bulgarian Real Estate Fund”**

## **First Quarter Summary Report**



20 May 2015

## Contents

<b>1</b>	<b><i>Overview of the Fund</i></b> .....	<b>3</b>
<b>2</b>	<b><i>Portfolio</i></b> .....	<b>4</b>
<b>3</b>	<b><i>Financial Highlights Q1/ 2015</i></b> .....	<b>9</b>
<b>4</b>	<b><i>Share performance</i></b> .....	<b>18</b>

## 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 (31.03.2015)	Shares Outstanding
Bulgarian Stock Exchange Sofia	5BU (BREF)	EUR 15,113,813	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.

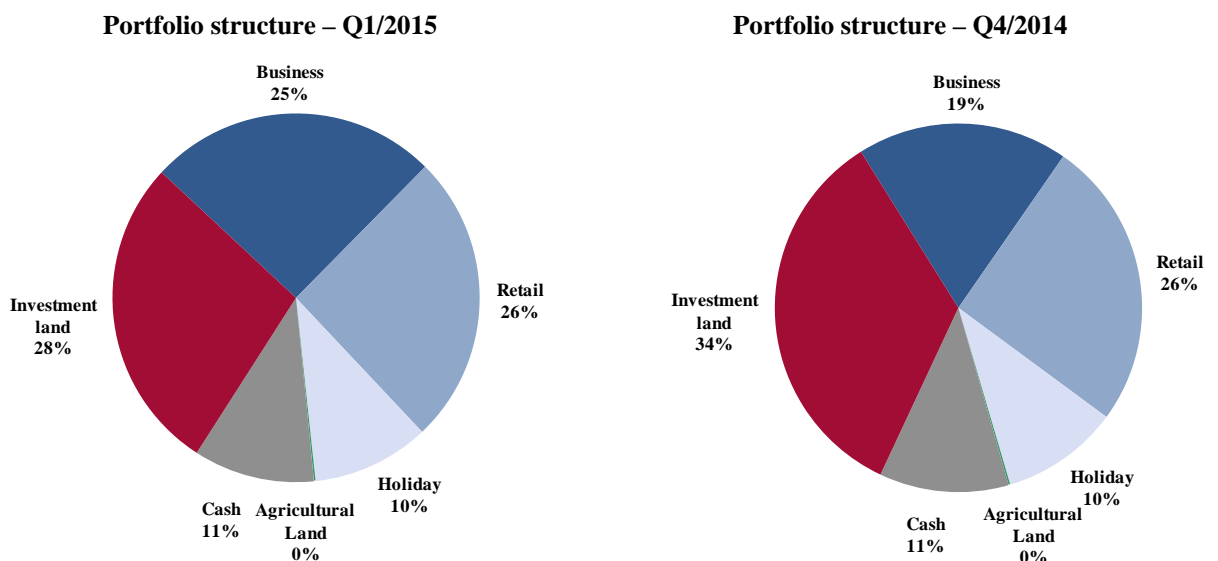
### 2.1 Portfolio structure

The major change in the structure of the portfolio during the last quarter is a result of the transformation of the Project Investment plots in Sofia – Ring Road into the project Kambanite Office Building. The change is a result of the issuance of construction permission and the ground-breaking for the new building, which shifted the project into the business properties segment. Following these changes at the end of the quarter, the share of business properties increased, wholly on account of the investment properties. Despite the observed change, the largest share, or 28% of the portfolio, was taken up by the investment properties, followed by commercial areas with 26%, and business properties with 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:

- Performing capital expenditures in Building 1 in Business Park Sofia;
- Contracting project management company for the construction of Kambanite Office Building and performing a tender for shell construction company;
- Sale of an apartment in Sequoia 2 - Borovetz
- Sale part of the plots near Veliko Tarnovo;
- Operational management of Building 1 in Business Park 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 March 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 31.03.2015	Future investments
<b>Current projects</b>				
"Mr. Bricolage" - sale and leaseback	operational management	10,293	10,293	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	7,548	7,520	29
Kampanite Office Building	in construction	2,704	2,704	7,567
<b>Pipeline projects</b>				
Seaside Holiday Village	suspended	9,203	2,319	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
<b>Total</b>		<b>42,836</b>	<b>35,923</b>	<b>7,596</b>

\* 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. Kampanite 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 March 2015 is EUR 1.65 million.

In 2012 both rent agreements were extended 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.

The tenant paid all amounts due for the rent of both stores in the last quarter. The regular amounts for the insurance of the stores were also paid in time.

### 2.3 Project – Agricultural Land

The total agricultural land owned by BREF as of the end of the first quarter is 404.6 dka, of which 228.6 dka are subject of litigation. During the period due to lost lawsuit 12 dka agricultural land were written off. The rented out lands are 149.1 dka or 36.8% from the total land. The average annual rental price is about BGN 48.85 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 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 1.82 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 95.32%. The total price of both transactions is EUR 7.2 million.

The General meeting of the Condominium was held during the past quarter and a supplier for the new chillers in the building was selected. The chillers were delivered and mounted in April 2015 and now the building complies with the new legal framework on cooling systems. The rental agreement for Studio 2 on 5th floor expired in February and the property is now vacant for new tenants. Meanwhile the company is holding negotiations to let all vacant premises in Building 1.

**Project parameters:**

Building 1 - Buisness Park Sofia	
Built-up area - offices	7,318 sq.m
Parking lots	68
Acquisition price	EUR 7.2 M
Occupancy rate	95.3%

## 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. During the past quarter a construction permission was issued and at the end of April 2015 the ground-breaking served as the official start of the project.

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.

### 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 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 Tarnovo. The properties constitute agricultural land and are still not zoned. During the past quarter the Company received an offer for purchase of 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.

**Project parameters:**

Investment Plots, Sofia - Mladost IV district	
Total plots' area	41,480 sq.m
Purchase price	EUR 10.67 M
Status	suspended



## 3 Financial Highlights Q1/ 2015

### 3.1 Summarized Financial Statements

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

**Table 3 – Balance sheet as of 31<sup>st</sup> March 2015 and 31<sup>st</sup> December 2014.**

(All amounts in EUR '000)	31.03.2015	31.12.2014
<b>ASSETS</b>		
<b>Non-current Assets</b>		
Investment property	30,981	31,131
Cost for acquisition of fixed assets	216	71
Plant and equipment	0	1
Intangible assets	2	2
Restricted cash	360	360
<b>Total Non-current Assets</b>	<b>31,559</b>	<b>31,565</b>
<b>Current Assets</b>		
Investment property held for sale	806	827
Trade receivable	74	44
Cash and cash equivalents	4,267	4,229
Other current assets	7	4
Deferred expenses	15	11
<b>Total Current Assets</b>	<b>5,169</b>	<b>5,115</b>
<b>TOTAL ASSETS</b>	<b>36,728</b>	<b>36,680</b>
<b>EQUITY AND LIABILITIES</b>		
<b>Equity</b>		
Share capital	30,908	30,908
Share premium	5,016	5,016
Retained earnings	(1,588)	(1,772)
<b>Total equity</b>	<b>34,336</b>	<b>34,152</b>
<b>Non-current liabilities</b>		
Interest bearing loan	725	960
Derivative financial instrument	64	81
Other long-term liability	283	283
<b>Total Non-current liabilities</b>	<b>1,072</b>	<b>1,324</b>
<b>Current liabilities</b>		
Current part of non-current liabilities	927	915
VAT payable	59	13
Payables to management company	105	71
Payables to the personnel and SIC	4	1
Trade and Other current liabilities	225	205
<b>Total Current liabilities</b>	<b>1,320</b>	<b>1,205</b>
<b>Total liabilities</b>	<b>2,392</b>	<b>2,528</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>36,728</b>	<b>36,680</b>

**Table 4 – P&L statement for the first quarter of 2015 and for the fourth quarter of 2014**

(All amounts in EUR '000)	Q1 - 2015	Q4 - 2014
Income from sale of assets	132	0
Rental income	508	497
Revenue from interest and other financial revenues	3	3
Other financial income	18	21
Other Income	7	42
<b>Total Revenue</b>	<b>668</b>	<b>563</b>
Value of sold assets	(167)	0
Interest expense	(25)	(36)
Management fees	(128)	(137)
Materials expense	(2)	(2)
BOD and employees salaries expense	(19)	(22)
Loss from fair value adjustments	0	(2,369)
Other expenses	(143)	(239)
<b>Total expenses</b>	<b>(484)</b>	<b>(2,804)</b>
<b>Profit/(loss) for the period</b>	<b>184</b>	<b>(2,242)</b>
<b>Weighted average number of shares in the quarter (in thousands)</b>	<b>60,450</b>	<b>60,450</b>
<b>Earnings per share - basic and diluted</b>	<b>0.003</b>	<b>(0.037)</b>

## 3.2 Liquidity

**Table 5 – Liquidity ratios as of 31<sup>st</sup> March 2015 and 31<sup>st</sup> December 2014.**

Liquidity Ratios	31.03.2015	31.12.2014
Current ratio	3.92	4.25
Quick ratio	3.31	3.56
Cash ratio	3.23	3.51

During the past quarter the liquidity ratios dropped and the reason for this were the bigger liabilities for local taxes and charges accumulated at the end of the period, payable in April, as well as liabilities related to the annual closing of the financial statements. Despite the noted changes, the liquidity ratios are still high, the current liquidity standing at 3.92, and the cash - at 3.23. 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 BREF building situated at the Sofia Ring Road.

### ■ Internal Sources of Liquidity

In the first quarter of 2015 the internal sources of liquidity saw an increase in both assets and liabilities. The changes are a result of the increase of cash and receivables in the assets side and increased tax liability and liability to suppliers in the liabilities side.

○ **Short-term (current) assets**

*Table 5A – Current assets as of 31<sup>st</sup> March 2015 and 31<sup>st</sup> December 2014.*

Liquidity sources	31.03.2015	%	31.12.2014	%
<b>Current Assets</b>				
Investment property held for sale	806	15.59%	827	16.17%
Trade receivable	74	1.43%	44	0.86%
Cash and cash equivalents	4,267	82.55%	4,229	82.68%
Other current assets	7	0.14%	4	0.07%
Deferred expenses	15	0.29%	11	0.22%
<b>Total Current Assets</b>	<b>5,169</b>	<b>100%</b>	<b>5,115</b>	<b>100%</b>

Following the property sales during the past quarter, the amount of the short-term assets increased by 1.05%, thus reaching at the end of the period EUR 5,169 thousand. The overall structure of the current assets remained the same, provided that the share of the trade receivables and interest showed a slight increase. After the last changes the cash stands at EUR 4,267 thousand and continues to have the greatest share of 82.55% the current assets.

The investment properties take up the second biggest share, 15.59%, provided that after the sale at the beginning of the year their value dropped to EUR 806 thousand. The book value of Sequoia 2 residential building in Borovets resort is reflected under this item.

The Trade receivables and interest follow with 1.43%. This amount increases as a result of advance payments by suppliers in connection with the repair works in Building 1 in Business Park Sofia. Other major receivables, in addition to the interest accrued on short-term deposits, are receivables under leases and from tenants of properties of the Company.

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

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

*Table 5B – Current liabilities as of 31<sup>st</sup> March 2015 and 31<sup>st</sup> December 2014.*

Liquidity sources	31.03.2015	%	31.12.2014	%
<b>Current liabilities</b>				
Current part of non-current liabilities	927	70.22%	915	75.98%
VAT payable	59	4.49%	13	1.06%
Payables to management company	105	7.94%	71	5.86%
Payables to the personnel and SIC	4	0.27%	1	0.08%
Trade and Other current liabilities	225	17.08%	205	17.02%
<b>Total Current Liabilities</b>	<b>1,320</b>	<b>100%</b>	<b>1,205</b>	<b>100%</b>

During the past quarter the amount of the short-term liabilities increased by 9.59%, reaching EUR 1,320 thousand at period-end. The reason for this change are the accrued liabilities for local taxes and charges, payable in April, and liabilities related to the construction of the new building. After the increase, the structure of the current liabilities changed insignificantly, the biggest share of 70.22% being again that of the accrued interest and the current part of the principal of the investment loan utilised by the Company under the Mr.Bricolage Project. The weak growth in the absolute value of this item was a result of the increasing amount of the monthly payments under the principal of the utilised loan. This amount is expected to increase slowly over the following reporting periods, until the time of repayment of the liability under the only investment loan of the Company.

The Trade and other liabilities take up the second biggest share, accounting for 17.08%. Their amount increases by 9.98%, provided that the reason for this are the new liabilities accrued in the course of implementation of the new project and liabilities related to the final-year closing of the financial statements. Other major liabilities under this item are the prepaid rents and

guarantee deposits received by the tenants in Building 1 in Business Park Sofia and the provisions for agricultural land court litigations set aside by the Company.

The payables to the managing company come next. Their value increases as a result of the outstanding monthly fee and again the liabilities related to the construction of the new building.

The tax liabilities demonstrated the largest increase during this quarter. Their amount increased 3 times, which is a result of the assessed local taxes for the first quarter of the year, which are payable in April.

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.

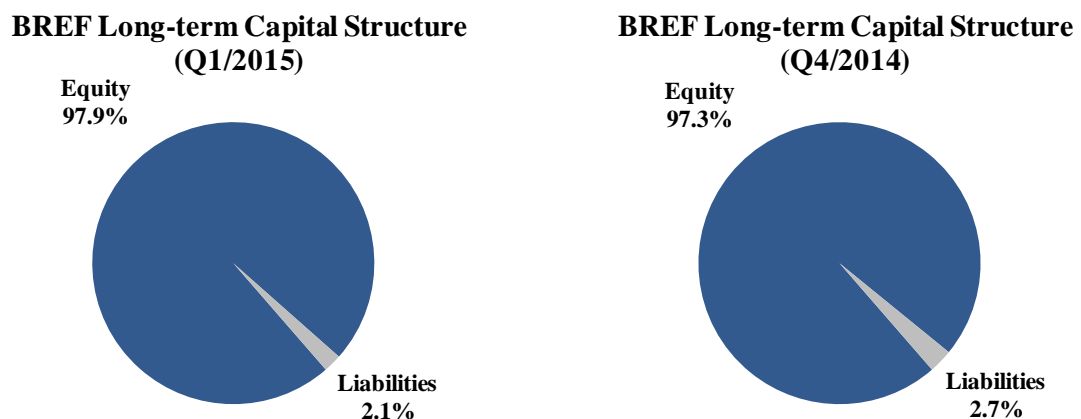
BREF has sufficient financial resources available to fully support its activity during the following months. From viewpoint of allocation of free resources for project implementation, BREF will focus mainly in the construction of the new building, in current repairs in the existing buildings and in searching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

### 3.3 Capital resources

At the end of March 2015 the long-term capital of BREF, both equity and borrowed capital, recorded a decrease of 0.14% to EUR 35,061 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 2.1%, as compared to 2.7% 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*



**Table 6 – Leverage ratios**

Leverage ratios	31.03.2015	31.12.2014
Debt-to-Equity	0.07	0.07
Non-Current Assets-to-Equity ratio	0.92	0.92
Long-term-Debt-to-Non-Current-Asset ratio	0.02	0.03

\*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 March 2015 the equity of BREF is EUR 34,336 thousand, which represents an increase of 0.54% as compared to the prior quarter. The recorded decrease is wholly due to the registered by the Fund profit for the period.

**Table 7 – Total equity as of 31<sup>st</sup> March 2015 and 31<sup>st</sup> December 2014.**

Equity (in thousands)	31.03.2015	31.12.2014
Share capital	30,908	30,908
Share premium	5,016	5,016
Retained earnings	(1,588)	(1,772)
<b>Total equity</b>	<b>34,336</b>	<b>34,152</b>

## ■ External financing

During the past quarter the Fund paid regularly the installments due on the investment loan used to finance the Mr. Bricolage project. The loan principal outstanding as of the end of March 2015 totals EUR 1.65 million. The term of the loan is by December 2016. No new investment loans were utilized during the quarter under review.

## ■ Capital expenses during the next periods under review

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

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

## 3.4 Asset structure

The amount of the BREF assets by the first quarter end increases by 0.13% to EUR 36,728 thousand, as compared to the end of the prior quarter, when the amount of the assets was EUR 36,680 thousand. The recorded increase is a result of the increased cash, following the sales of properties and the rents received during the quarter.

**Table 6 – Asset structure**

Asset structure (thousand EUR)	31.03.2015	% share	31.12.2014	% share
<b>Non-current assets incl.</b>	<b>31,559</b>	<b>85.93%</b>	<b>31,565</b>	<b>86.05%</b>
- total property	30,981	84.35%	31,131	84.87%
- cost for acquisition of fixed assets	216	0.59%	71	0.19%
<b>Current assets incl.</b>	<b>5,169</b>	<b>14.07%</b>	<b>5,115</b>	<b>13.95%</b>
- trade receivable	74	0.20%	44	0.12%
- investment property held for sale	806	2.19%	827	2.26%
- cash and cash equivalents	4,267	11.62%	4,229	11.53%
<b>Total assets</b>	<b>36,728</b>	<b>100%</b>	<b>36,680</b>	<b>100%</b>

The structure of the assets did not change significantly, provided that there was a minor decrease in the share of the long-term assets, which reached 85.93%, as compared to 86.05% at

the end of the fourth quarter of 2014. The change was a result of the written off properties sold by the Company and the related increase of cash. On the other hand, the increase of the short-term assets, cash in particular, was a result of the income from rent received during the period. During the next quarter, along with the accumulation of expenses on the construction of the new building, the share of cash is expected to drop, while the share of expenses on acquisition of FTA is expected to grow.

### 3.5 Financial Results

The operation of the Company during the first quarter of 2015 was focused mainly on the management of projects generating income for the Company and the sale of properties.

#### ■ Revenue from operations

During the reviewed quarter the accounted income was EUR 668 thousand, or 18.62% more than the prior quarter. The main reason for this was the recorded higher revenue from rent and income from property sale.

*Table 9 – Realized revenues for the first quarter of 2015.*

Revenue (in thousand EUR)	Q1 - 2015	Q4 - 2014
Income from sale of assets	132	0
Rental income	508	497
Revenue from interest and other financial revenues	3	3
Other financial income	18	21
Other Income	7	42
<b>Total revenue</b>	<b>668</b>	<b>563</b>

The greatest share, or 76.11%, during the past quarter was again that of the income from rent. This amount increased from EUR 497 thousand during the fourth quarter of 2014 to EUR 508 thousand during the first quarter of 2015 and the main reason for this was the indexation of part of the rents at the beginning of the new year. The income from rent is expected to keep the same level in the next quarter.

The income from sale of properties is at the second place with 19.83%. The revenues from sale of one apartment in Borovets resort and of part of the properties in the region of the town of Veliko Tarnovo are registered under this item.

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

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

#### ■ Expenses from operations

During the past quarter, the total expenses of BREF decreased more than 5 times, mainly as a result of the lack of negative revaluations of assets of the Company.

**Table 10 – Realized expenses for the first quarter of 2015.**

Expenses (in thousand EUR)	Q1 - 2015	Q4 - 2014
Value of sold assets	(167)	0
Interest expense	(25)	(36)
Management fees	(128)	(137)
Materials expense	(2)	(2)
BOD and employees salaries expense	(19)	(22)
Loss from fair value adjustments	0	(2,369)
Other expenses	(143)	(239)
<b>Total expenses</b>	<b>(484)</b>	<b>(2,804)</b>

During the first quarter of 2015 the greatest share, or 34.57%, of the expenses was the book value of properties sold during the period. Entries are made under this item, if there are sold properties and if there are no new sales there will be no more entries during the next quarter.

The Other Expenses item is ranked second, accounting for 29.60% of the expenses. The decrease is a result of the lower expenses on repairs in Building 1 in Business Park Sofia and repairs in the Mr. Bricolage stores. 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 managing company was next, accounting for 26.43% of the expenses. The amount is lower as a result of the lower value of the net assets of the Fund. The next reporting period is associated with expectations that this item of expense will remain at the same level.

The expenses on interest, amounting to 5.07%, come next and they include paid and accrued interest under the Mr. Bricolage loan and expenses under the interest swap utilised under the same loan. This entry recorded a decline, which was a result of the decrease of the outstanding principal under the utilised loan. The amount of the interest payments is expected to continue its decrease in the reporting periods, until the complete repayment of the loan under the Mr. Bricolage project.

The expenses during the next quarter will mainly depend on the expenses on the construction of the new building and new sales of properties.

## ■ Financial result

In the first quarter of 2015 the Company realised a profit of EUR 184 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 property repairs that are not scheduled.

**Table 11 – Financial result for the first quarter of 2015.**

Financial Result	Q1 - 2015	Q4 - 2014
Revenues	668	563
Expences	(484)	(2,804)
<b>Net profit/loss for the period</b>	<b>184</b>	<b>(2,242)</b>

The accounting profit divided by the average number of shares during the quarter gives the earning per share (EPS) of EUR 0.003.



Results per share (EUR '000)	2015**	2014	2013	2012
Earnings	184	(1,893)	862	879
Earnings per share (EPS)	0.003	-0.031	0.014	0.015
Net asset value (NAV)	34,336	34,152	36,045	37,006
Common shares outstanding	60,450	60,450	60,450	60,450
NAV per share	0.568	0.565	0.596	0.612
Dividend per share	0.0000	0.0000	0.0122	0.0152
Share fair value*	0.568	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 March 2015 increased from EUR 0.565 per share to EUR 0.568 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 March 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 and there is no necessity to borrow from external sources.

### *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

During the first quarter of 2015 the shares of Bulgarian Real Estate Fund SPV registered a drop of 9.44%, while the drop for the last year was 23.6%. The fluctuation of the performance of the shares for the last 12 months 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 in 2014. During the first quarter of 2015 the debates on the imposition of ban non-EU nationals to own agricultural land in Bulgaria had an influence on the price of the shares of the Fund, as well as of other special purpose vehicles. In addition, the financial statement of the Company was published during the first quarter, which showed that the Fund had recorded depreciation of EUR 2.36 million under the projects for the Sequoia 2 residential building in Borovets resort and the properties in Mladost IV residential area in Sofia.

In comparison, during the first quarter of 2015 the SOFIX index dropped by 1.46% 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 3.28%.

Until the end of 2015 we can expect gradual increase of the activity on the Bulgarian Stock Exchange, in comparison with the prior year, in view of the relative stability currently demonstrated by the new government and the calming down crisis with Corporate Commercial Bank.

Summarized trading details for the 52 week period – 1<sup>st</sup> April 2014 – 31<sup>st</sup> March 2015:

- Opening Price – BGN 0.640 (1 April 2014)
- Closing Price – BGN 0.489 (31 March 2015)
- Highest Price – BGN 0.677 (3 April 2014)
- Lowest Price – BGN 0.450 (12 March 2015)
- Total Trading Volume – 7,463,580 shares
- Turnover for the period – BGN 3,965,360 (EUR 2,027,457)
- Weighted average price – BGN 0.531
- Market Capitalisation (31.03.2015) – BGN 29,560,050 (EUR 15,113,813)

**BREF Share Price Performance  
(01.04.2014 - 31.03.2015)**

