

# **“Bulgarian Real Estate Fund”**

## **Fourth Quarter Summary Report**



15 February 2016

## Contents

<i>1</i>	<i>Overview of the Fund</i> .....	<i>3</i>
<i>2</i>	<i>Portfolio</i> .....	<i>4</i>
<i>3</i>	<i>Financial Highlights Q4/ 2015</i> .....	<i>9</i>
<i>4</i>	<i>Share performance</i> .....	<i>18</i>

## 1 Overview of the Fund

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

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

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

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

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

## 2 Portfolio

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

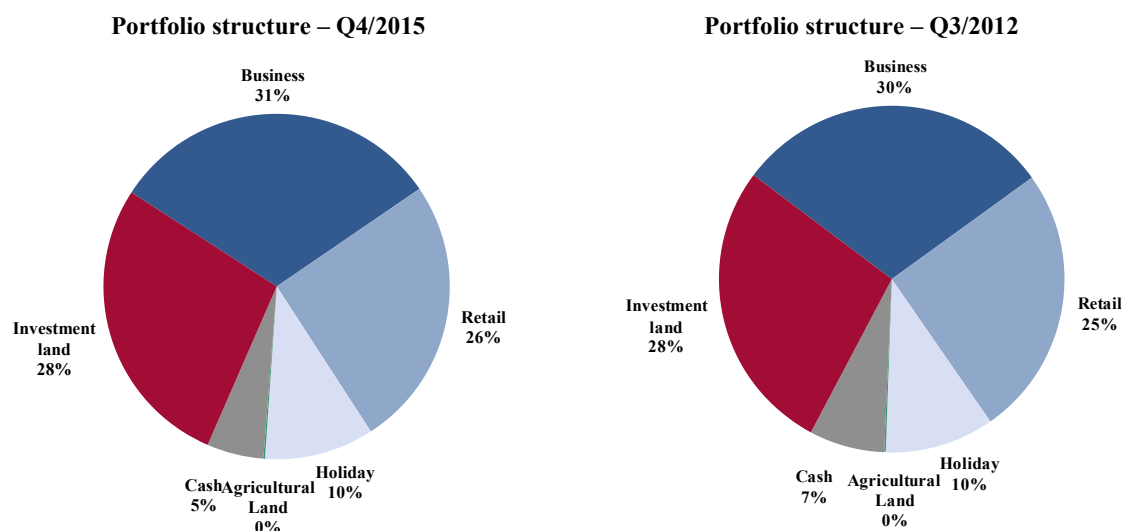
### 2.1 Portfolio structure

The share of business properties continued to increase in the fourth quarter on account of cash. This tendency is a result of the continuing construction of the new office building of BREF at the ring road, close to Business Park Sofia. Following the investments during the last reporting period, the share of business properties reached 31% and they have the largest share in the portfolio of the Company. The investment properties come second with 28% and the retail areas are third with 26%. During the next quarter the share of business properties is expected to continue its growth with the investment of the new funds in the construction of the office building. The key highlights during the past quarter were as follows:

- Organizing the construction works of Kambanite Office Building and organizing auctions for the finishing works;
- Marketing the new office building and conducting negotiations with potential tenants;
- Securing bank loan for financing the construction works of the new building;
- Operational management of Building 1 in Business Park Sofia and organizing repairs in the newly rented premises;
- Performing current repairs in Mr.Bricolage store in Sofia and preparation for the reconstruction and the expansion of Varna store;
- 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 December 2015 were nine, diversified in different sectors of the real estate market in Bulgaria.

*Figure 1. Investment allocation in types of market sector*



The Fund's last 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 31.12.2015	Future investments
<b>Current projects</b>				
"Mr. Bricolage" - sale and leaseback	operational management	10 300	10 300	256
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	7 595	7 572	23
Kambanite Office Building	in construction	10 021	5 103	4 919
<b>Pipeline projects</b>				
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
<b>Total</b>		<b>50 207</b>	<b>38 386</b>	<b>5 197</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. 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 31<sup>st</sup> December 2015 is EUR 962 thousand.

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

### Project parameters:

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

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

The tenant paid all amounts due for the rent of both stores in the last quarter. During the period BREF performed repairs of the entrance door of the store in Sofia. At the end of the prior year at the request of the tenant it was resolved that in 2016 our store in Varna would be expanded and reorganized. As a result of this decision, an agreement for the necessary construction works

was signed in January 2016 and the expansion started. Following the reorganization, the rental payment by the tenant will increase in accordance with the incurred expenses.

### 2.3 Project – Agricultural Land

The total agricultural land owned by BREF as of the end of the fourth quarter is 404.6 dka, of which 228.6 dka are subject of litigation. In the last quarter BREF rented out new 16 dka and the total rented out lands increased to 165.1 dka or 40.8% from the total land. The average annual rental price is about BGN 48.96 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 December 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.

At the beginning of the quarter rental agreements for more than 3,800 square meters, or 60% of the lettable area in the building were renegotiated. As a result of this, agreements for extensions of the rental contracts until 2021 for 2,150 square meters and until 2019 for 1,650 square meters were signed. One of the tenants of the north wing of the building vacated a floor with an area of 772 square meters and the same area was let to another tenant from the same building. By the above relocation and the executed new agreements the Fund ensured stability of rental income for the years to come and optimized the profit of the project. In addition during the period a new rental agreement for 5 years was signed for one of the small office premises on the top floor of the building. 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:**

<b>Building 1 - Business Park Sofia</b>	
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 2015 the Fund started a project for construction of a multifunctional building of the highest class, which meets all criteria for green buildings and offers all amenities typical of such buildings.

According to the approved design, the total built-up area of the building will be 13,498 sq.m., of which the leasable office area will be 9,609 sq.m., the restaurant will have an area of 400 sq.m., and there will be 215 parking spaces, of which 74 in the underground parking. According to the preliminary plans, the building is expected to be commissioned by the end of 2016. According to the preliminary budget, the cost of the construction works will be approximately EUR 7.5 million.

At the end of 2015 the shell construction phase of the building was finished and Act 14 was issued. All tenders for finishing works were completed and the works started. Bank financing in the amount of BGN 11 million was contracted at the end of the year in connection with the construction of the new building. The loan agreement was signed in January 2016, however the funds under this loan have not been utilised yet.

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

**Project parameters:**

<b>Office Building Kambanite</b>	
Built-up area	13,498 sq.m
Leasable office area	9,609 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 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:**

<b>Seaside Holiday Village</b>	
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 15 properties, located on the Ring Road of Sofia, at its intersection with Alexandar Malinov Boulevard, westwards, opposite Business Park Sofia. The total area of the properties owned under this project is 33,118 sq.m. This area is as a result of the new development plan for the territory, which entered in force in 2014, the official document for which were received by the Company within the last quarter. According to the plan the old properties of the Fund were replaced by new ones of the same value, with new construction parameters, new borders and area. The new development parameters are building intensity ratio 3.5 and building density 60%. Thus, after the transformation, BREF is left with properties with a total area of 33,118 sq.m., out of which 25,145 sq.m. zoned and 7,973 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.

Investment Plots, Sofia - Mladost IV district	
Total plots' area	33,118 sq.m
Purchase price	EUR 10.67 M
Status	suspended



## 3 Financial Highlights Q4/ 2015

### 3.1 Summarized Financial Statements

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

**Table 3** – Balance sheet as of 31<sup>st</sup> December 2015, 30<sup>th</sup> September 2015, 30<sup>th</sup> June 2015 and 31<sup>st</sup> March 2015.

(All amounts in EUR '000)	31.12.2015	30.09.2015	30.06.2015	31.03.2015
<b>ASSETS</b>				
<b>Non-current Assets</b>				
Investment property	31,024	30,981	30,981	30,981
Cost for acquisition of fixed assets	2,614	2,111	558	216
Plant and equipment	-	-	-	-
Intangible assets	1	1	2	2
Restricted cash	-	360	360	360
<b>Total Non-current Assets</b>	<b>33,638</b>	<b>33,453</b>	<b>31,901</b>	<b>31,559</b>
<b>Current Assets</b>				
Investment property held for sale	778	806	806	806
Trade receivable	52	34	32	74
Cash and cash equivalents	2,155	2,856	3,882	4,267
Other current assets	54	102	12	7
Deferred expenses	10	11	12	15
<b>Total Current Assets</b>	<b>3,048</b>	<b>3,809</b>	<b>4,744</b>	<b>5,169</b>
<b>TOTAL ASSETS</b>	<b>36,687</b>	<b>37,262</b>	<b>36,645</b>	<b>36,728</b>
<b>EQUITY AND LIABILITIES</b>				
<b>Equity</b>				
Share capital	30,908	30,908	30,908	30,908
Share premium	3,244	3,244	5,016	5,016
Retained earnings	26	642	(1,357)	(1,588)
<b>Total equity</b>	<b>34,177</b>	<b>34,794</b>	<b>34,566</b>	<b>34,336</b>
<b>Non-current liabilities</b>				
Interest bearing loan	-	246	487	725
Derivative financial instrument	23	34	48	64
Other long-term liability	-	283	283	283
<b>Total Non-current liabilities</b>	<b>23</b>	<b>563</b>	<b>818</b>	<b>1,072</b>
<b>Current liabilities</b>				
Current part of non-current liabilities	967	952	940	927
VAT payable	3	22	-	59
Payables to management company	506	709	105	105
Payables to the personnel and SIC	5	1	1	4
Provisions for dividends due	732	-	-	-
Trade and Other current liabilities	274	221	216	225
<b>Total Current liabilities</b>	<b>2,486</b>	<b>1,905</b>	<b>1,261</b>	<b>1,320</b>
<b>Total liabilities</b>	<b>2,509</b>	<b>2,468</b>	<b>2,078</b>	<b>2,392</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>36,687</b>	<b>37,262</b>	<b>36,645</b>	<b>36,728</b>

**Table 4 – P&L statement by quarters and accumulated since the beginning of 2015**

(All amounts in EUR '000)	Q4 - 2015	Q3 - 2015	Q2 - 2015	Q1 - 2015	2015
Income from sale of assets	-	-	-	132	132
Rental income	509	511	509	508	2,036
Revenue from interest and other financial revenues	2	2	1	3	7
Other financial income	11	14	16	18	59
Other Income	2	-	2	7	11
<b>Total Revenue</b>	<b>524</b>	<b>526</b>	<b>528</b>	<b>668</b>	<b>2,245</b>
Value of sold assets	-	-	-	(167)	(167)
Interest expense	(16)	(18)	(22)	(25)	(81)
Management fees	(130)	(129)	(129)	(128)	(516)
Materials expense	(2)	(2)	(2)	(2)	(6)
BOD and employees salaries expense	(29)	(19)	(19)	(19)	(86)
Loss from fair value adjustments	(55)	-	-	-	(55)
Other expenses	(177)	(130)	(126)	(143)	(576)
<b>Total expenses</b>	<b>(409)</b>	<b>(299)</b>	<b>(297)</b>	<b>(484)</b>	<b>(1,488)</b>
<b>Profit/(loss) for the period</b>	<b>115</b>	<b>228</b>	<b>231</b>	<b>184</b>	<b>757</b>
<b>Weighted average number of shares in the quarter (in thousands)</b>	<b>60,450</b>	<b>60,450</b>	<b>60,450</b>	<b>60,450</b>	<b>60,450</b>
<b>Earnings per share - basic and diluted</b>	<b>0.002</b>	<b>0.004</b>	<b>0.004</b>	<b>0.003</b>	<b>0.013</b>

### 3.2 Liquidity

**Table 5 – Liquidity ratios as of 31<sup>st</sup> December 2015, 30<sup>th</sup> September 2015, 30<sup>th</sup> June 2015 and 31<sup>st</sup> March 2015.**

Liquidity Ratios	31.12.2015	30.09.2015	30.06.2015	31.03.2015
Current ratio	1.23	2.00	3.76	3.92
Quick ratio	0.91	1.58	3.12	3.31
Cash ratio	0.87	1.50	3.08	3.23

During the last quarter the tendency of decreasing liquidity ratios continued. The reasons for this decrease were, on one side, the assessed provisions for payable dividend for 2015, and on the other side the considerable reduction of cash, as a result of the continuing construction works of the new office building of the Company. Following the last changes the quick and cash liquidity ratios dropped below 1, i.e. 0.91 and 0.87 respectively, and the current liquidity ratio remained at a level slightly above 1, or 1.23. The liquidity of the Company is expected to increase during the next reporting period, following the utilization of cash under the new investment loan of the Company.

#### ■ 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 accrual of provisions for dividends due for 2015 were the reason for those changes.

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

Liquidity sources	31.12.2015	%	30.09.2015	%	30.06.2015	31.03.2015
<b>Current Assets</b>						
Investment property held for sale	778	25.51%	806	21.15%	806	806
Trade receivable	52	1.71%	34	0.90%	32	74
Cash and cash equivalents	2,155	70.68%	2,856	74.98%	3,882	4,267
Other current assets	54	1.76%	102	2.68%	12	7
Deferred expenses	10	0.34%	11	0.28%	12	15
<b>Total Current Assets</b>	<b>3,048</b>	<b>100%</b>	<b>3,809</b>	<b>100%</b>	<b>4,744</b>	<b>5,169</b>

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 fourth quarter dropped by 19.97%, this reaching EUR 3,048 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 gradual growth. Following the last changes, the cash amounts to EUR 2,155 thousand and its share of the current assets is 70.68%. During the next reporting periods the cash will increase its value with the utilization of the funds from the new investment loan, however with the progress of the construction it will decrease again. These two factors will underlie the changes in cash, which will have an impact on the amount of the current assets of the Fund.

The investment properties take up the second biggest share, 25.51% and their value changed as a result of the revaluation made at year-end. 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 “Sequoia 2” residential building in Borovets resort.

The Other receivables item comes next, accounting for 1.76%. 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 decreased as a result of the tax refunded by the state, accrued during the prior reporting period. This item is expected to increase with the accrual of new VAT refundable, assessed as a result of the continuing construction works of the new office building.

The commercial receivables and interest increased their amount as compared to the prior quarter, provided that this item contained mainly current receivables from tenants and accrued interest under deposits. The recorded increase was a result of a delayed rental payment by a tenant in Building 1 in Business Park Sofia. 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.

The Company expects the total current assets to grow slightly during the next reporting periods following the increase in cash and accumulation of VAT refundable.

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

Liquidity sources	31.12.2015	%	30.09.2015	%	30.06.2015	31.03.2015
<b>Current liabilities</b>						
Current part of non-current liabilities	967	38.89%	952	49.99%	940	927
VAT payable	3	0.12%	22	1.15%	0	59
Payables to management company	506	20.36%	709	37.21%	105	105
Payables to the personnel and SIC	5	0.21%	1	0.03%	1	4
Provisions for dividends due	732	29.43%	0	0.00%	0	0
Trade and Other current liabilities	274	11.00%	221	11.62%	216	225
<b>Total Current Liabilities</b>	<b>2,486</b>	<b>100%</b>	<b>1,905</b>	<b>100%</b>	<b>1,261</b>	<b>1,320</b>

During the last quarter the amount of the short-term liabilities increased by 30.55%, reaching EUR 2,486 thousand at period-end. The main reason for this increase was the assessed provisions for payable dividend for 2015 in the amount of EUR 732 thousand. This considerably changed the structure of the current liabilities, as the new item significantly reduced the shares of the other payables. Despite this change, the payments for the year to come under the principal and the interest under the investment loan for Mr. Bricolage project continue to have the greatest share, 38.89%, of the current liabilities, and to grow slightly. 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. It is expected that with the utilization of the funds from the new loan, this item will record a larger increase, which will influence the current liabilities as a whole.

At the second place, accounting for 29.43% of the short-term liabilities, are the provisions for dividends for the financial 2015, amounting to EUR 732 thousand. The calculated amount represents 90% of the transformed financial result, determined in compliance with art. 10 of the Special Purpose Vehicles Act. The final amount to be distributed as a dividend for 2015 will be determined at the General meeting of the shareholders at which the financial results for 2015 will be put to vote.

The payables to the managing company, acting as an intermediary between BREF and the construction companies, were next, amounting to 20.36%. The observed decrease was a result of the payment of the accumulated payables to the construction companies in connection with the construction of the new building of the Fund. Other major payables under this item included retained amounts for the construction companies, serving as a performance bond.

The commercial and other liabilities increased their amount and their share in the current liabilities remained at 11.00%. The main reason for the recorded increase was the accumulated larger guarantee deposits under the rental agreements for Building 1 in Business Park Sofia. Other major obligations recorded in this item are the provisions set aside by the Company under court decrees for agricultural land and prepaid rents by the tenants.

During the next reporting period the accumulation of obligations related to the construction of the new building and the increase of the current liabilities under the loans utilized by the Company will continue. This 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 loans as described in detail in section 3.3. Capital resources.

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

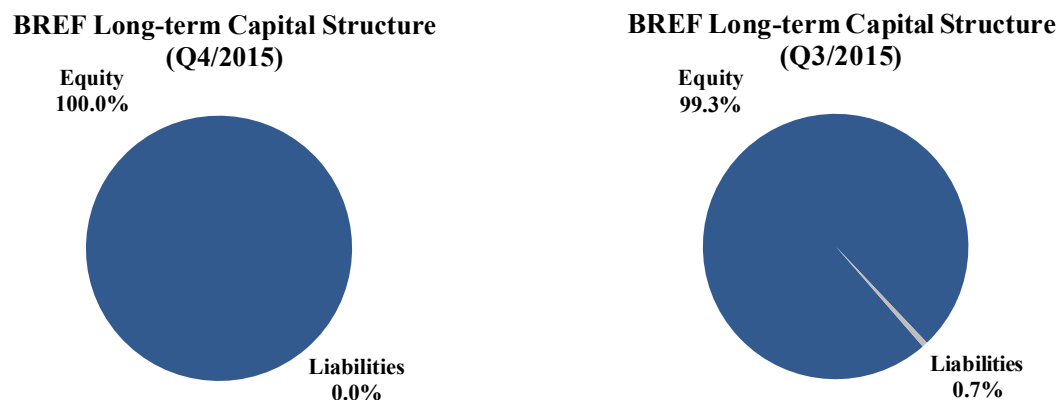
### **3.3 Capital resources**

At the end of December 2015 the long-term capital of BREF, both equity and borrowed capital, recorded a decrease of 2.46% to EUR 34,177 thousand. This change is a result of the paid principal under the investment loan of the Fund, as well as of the provisions for dividends for 2015 set aside from the current profit of the Fund.

During the past quarter the Company continued to repay its obligations under the current investment loan; the principal at the end of the year is payable by the end of 2016 and is not taken into account in the long-term capital. Therefore the share of the borrowed capital is equal to zero and the equity only is recorded as capital resource. During the next reporting periods the

share of the borrowed funds is also expected to increase with the utilization of funds under the new investment loan. The distribution between equity and borrowed funds for the last two quarters is presented in the figures below.

*Figure 2: Allocation between equity and external financing*



Leverage ratios	31.12.2015	30.09.2015	30.06.2015	31.03.2015
Debt-to-Equity	0.07	0.07	0.06	0.07
Non-Current Assets-to-Equity ratio	0.98	0.96	0.92	0.92
Long-term-Debt-to-Non-Current-Asset ratio	0.00	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 December 2015 the equity of BREF is EUR 34,177 thousand, which represents a decrease of 1.77% as compared to the prior quarter. The recorded decrease is wholly due to the accrued provision for dividends for 2015, which is on account of the current year profit of the Fund.

*Table 7 – Total equity as of 31<sup>st</sup> December 2015, 30<sup>th</sup> September 2015, 30<sup>th</sup> June 2015 and 31<sup>st</sup> March 2015.*

Equity (in thousands)	31.12.2015	30.09.2015	30.06.2015	31.03.2015
Share capital	30,908	30,908	30,908	30,908
Share premium	3,244	3,244	5,016	5,016
Retained earnings	26	642	(1,357)	(1,588)
<b>Total equity</b>	<b>34,177</b>	<b>34,794</b>	<b>34,566</b>	<b>34,336</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 December 2015 totals EUR 962 thousand. The term of the loan is by December 2016.

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

### ■ Capital expenses during the next periods under review

The Fund's investment strategy for 2016 is focused mainly on constructing the new office building on the Ring Road in Sofia. In addition new capital expenditures are expected for the reconstruction and the expansion of Mr.Bricolage store in Varna, as well as for Building 1 in Business Park Sofia, where repairs of the common parts are planned.

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

## 3.4 Asset structure

The value of the BREF assets by the end of Q4 dropped by 1.54% to EUR 36,687 thousand, as compared to the end of the prior quarter when the amount of the assets was EUR 37,262 thousand. The recorded decrease was a result of the repaid old liabilities of the Company, repaid principal under the current loan of the Fund and revaluation of properties at the end of the year.

*Table 6 – Asset structure*

Asset structure (thousand EUR)	31.12.2015	% share	30.09.2015	% share	30.06.2015	31.03.2015
<b>Non-current assets incl.</b>	<b>33,638</b>	<b>91.69%</b>	<b>33,453</b>	<b>89.78%</b>	<b>31,901</b>	<b>31,559</b>
- total property	31,024	84.56%	30,981	83.14%	30,981	30,981
- cost for acquisition of fixed assets	2,614	7.12%	2,111	5.66%	558	216
<b>Current assets incl.</b>	<b>3,048</b>	<b>8.31%</b>	<b>3,809</b>	<b>10.22%</b>	<b>4,744</b>	<b>5,169</b>
- trade receivable	52	0.14%	34	0.09%	32	74
- investment property held for sale	778	2.12%	806	2.16%	806	806
- cash and cash equivalents	2,155	5.87%	2,856	7.66%	3,882	4,267
<b>Total assets</b>	<b>36,687</b>	<b>100%</b>	<b>37,262</b>	<b>100%</b>	<b>36,645</b>	<b>36,728</b>

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 91.69%, as compared to 89.78 % at the end of the previous quarter. The major increase was accounted in the expenses on acquisition on FTA, 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 FTA is expected to grow.

## 3.5 Financial Results

The operation of the Company during the fourth 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 524 thousand, or 0.49% less than the prior quarter. The main reason for this result was the decreasing income from the derivative financial instrument.

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

Revenue (in thousand EUR)	Q4 - 2015	Q3 - 2015	Q2 - 2015	Q1 - 2015	2015
Income from sale of assets	-	-	-	132	132
Rental income	509	511	509	508	2,036
Revenue from interest and other financial revenues	2	2	1	3	7
Other financial income	11	14	16	18	59
Other Income	2	-	2	7	11
<b>Total revenue</b>	<b>524</b>	<b>526</b>	<b>528</b>	<b>668</b>	<b>2,245</b>

The greatest share, or 97.17%, during the past quarter was again that of the Income from rent. Its amount remained at EUR 509 thousand and minor changes were recorded as a result of the changed locations of the tenants in Building 1 of Business Park Sofia. The income from rent is expected to remain at 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 its amount, provided that its 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.

#### ■ Expenses from operations

During the past quarter the total expenses of BREF increased by 36.82%, as a result of the assessed depreciation of real estates and the expenses on repair in Building 1 of Business Park Sofia and in Mr Bricolage store in Sofia.

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

Expenses (in thousand EUR)	Q4 - 2015	Q3 - 2015	Q2 - 2015	Q1 - 2015	2015
Value of sold assets	-	-	-	(167)	(167)
Interest expense	(16)	(18)	(22)	(25)	(81)
Management fees	(130)	(129)	(129)	(128)	(516)
Materials expense	(2)	(2)	(2)	(2)	(6)
BOD and employees salaries expense	(29)	(19)	(19)	(19)	(86)
Loss from fair value adjustments	(55)	-	-	-	(55)
Other expenses	(177)	(130)	(126)	(143)	(576)
<b>Total expenses</b>	<b>(409)</b>	<b>(299)</b>	<b>(297)</b>	<b>(484)</b>	<b>(1,488)</b>

In the fourth quarter of 2015 the largest share, 43.30%, of the expenses was that of the Other expenses item. The recorded increase was a result of the incurred expenses for repair of office premises following the change of tenants in Building 1 in Business Park Sofia, repair works in Mr Bricolage store and allocated provisions for court litigations related to agricultural land. The largest share under 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 second, accounting for 31.91% of the expenses. This item of the expenses remained at the same level, as in the prior quarter, which is expected as a trend in the future accounting periods.

The net loss from revaluation of property comes next, accounting for 13.52% of the expenses. The major share of this loss was taken up by the depreciation of Sequoia 2 residential building in Borovets resort, the properties in Veliko Tarnovo and the property in Tsarevo. The assessment of these revaluations is made once in the year and there will be no entries under this item in the next reporting periods.

The expenses on interest, amounting to 3.88%, 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 item recorded a decline, which was a result of the decrease of the outstanding principal under the utilised loan. During the next reporting periods after the utilization of the funds under the new investment loan of the Company these expenses are expected to start increasing.

The change in the expenses in the next quarter will mainly depend on the change in the expenses on interest and the assessment of additional costs related to repairs in the properties of the Company.

### ■ Financial result

During the fourth quarter of 2015 the Company generated profit in the amount of EUR 115 thousand, provided that the main contribution for the recorded decrease was again that of the accrued loss from revaluation and the specific expenses on repair in the different properties. The financial result during the next quarter is expected to remain at the level of the third quarter of the past year, provided that larger deviations are possible in case of sale of properties.

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

Financial Result	Q4 - 2015	Q3 - 2015	Q2 - 2015	Q1 - 2015	2015
Revenues	524	526	528	668	2,245
Expences	(409)	(299)	(297)	(484)	(1,488)
<b>Net profit/loss for the period</b>	<b>115</b>	<b>228</b>	<b>231</b>	<b>184</b>	<b>757</b>

The accounting profit divided by the average number of shares during the quarter gives the earning per share (EPS) of EUR 0.002.

Results per share (EUR '000)	2015**	2014	2013	2012
Earnings	757	(1,893)	862	879
Earnings per share (EPS)	0.013	-0.031	0.014	0.015
Net asset value (NAV)	34,177	34,152	36,045	37,006
Common shares outstanding	60,450	60,450	60,450	60,450
NAV per share	0.565	0.565	0.596	0.612
Dividend per share	0.0121	0.0000	0.0122	0.0152
Share fair value*	0.577	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 December 2015 stayed at EUR 0.565 per share.

### ■ Potential risks

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



***Market Risk***

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

***Interest rate risk***

As of the end of December 2015, considering the investment bank loan of the Fund, it is exposed to interest rate risk regarding possible changes in the interest rate levels. In order to minimize this risk BREF has concluded a contract for interest swap according to which it exchanges a floating for a fixed interest rate. The Fund is in constant contact with the creditor bank regarding optimization of the interest payments.

***Foreign currency risk***

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

***Liquidity risk***

The company is exposed to liquidity risk with regard to paying off its current liabilities. At current, due to the secured additional bank financing the Fund has enough available funds to finance its operative and investment activity.

***Construction risk***

Due to the start of the construction works on the new Kambanite Office Building and due to the risk of change in the price of materials, design, construction and delay of construction, or non-compliance with the preliminary design, we believe that the Fund will be also exposed to construction risk that may affect the profitability of BREF. In order to reduce the construction risk, the Company retained a company specialised in project management and will use online platforms to organise the construction bids.

## 4 Share performance

In the fourth quarter of 2015 the shares of Bulgarian Real Estate Fund recorded an increase of 15.33%, however on a yearly basis the price dropped by 3.89%. The fluctuating performance of the shares in the last year reflects the increased systemic risk for Bulgaria after the turmoil of the bank system in the middle of 2014 and the political instability in the country in the second half of the last year. The debates concerning the imposition of fines on the companies owning agricultural land with shareholders from countries outside the EU or offshore companies have had an impact on the prices of the shares of the Fund and of other SPVs since the beginning of 2015. Nevertheless, during the last quarter of the year the influence of these factors weakened and this led to an increase of the price of the shares in the sector and on the whole market.

In comparison, in the last quarter of 2015, the SOFIX index recovered 3.83% of its value, while the broad BGBX 40 advanced by 4.89%. The sector-specific BGREIT, reflecting the performance of the special purpose vehicles, added 2.10% to its value. The companies investing in real estates continue to generate the interest of investors and their shares are traditionally among the most traded on the floor of the Bulgarian Stock Exchange, Sofia.

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

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

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

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

