

# **“Bulgarian Real Estate Fund”**

## **Second Quarter Summary Report**



20 August 2015

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## 1 Overview of the Fund

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

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

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

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

Stock Exchange	Ticker Symbol	Market Capitalization (30.06.2015)	Shares Outstanding
<b>Bulgarian Stock Exchange Sofia</b>	<b>5BU (BREF)</b>	<b>EUR 14,372,031</b>	<b>60 450 000</b>

## 2 Portfolio

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

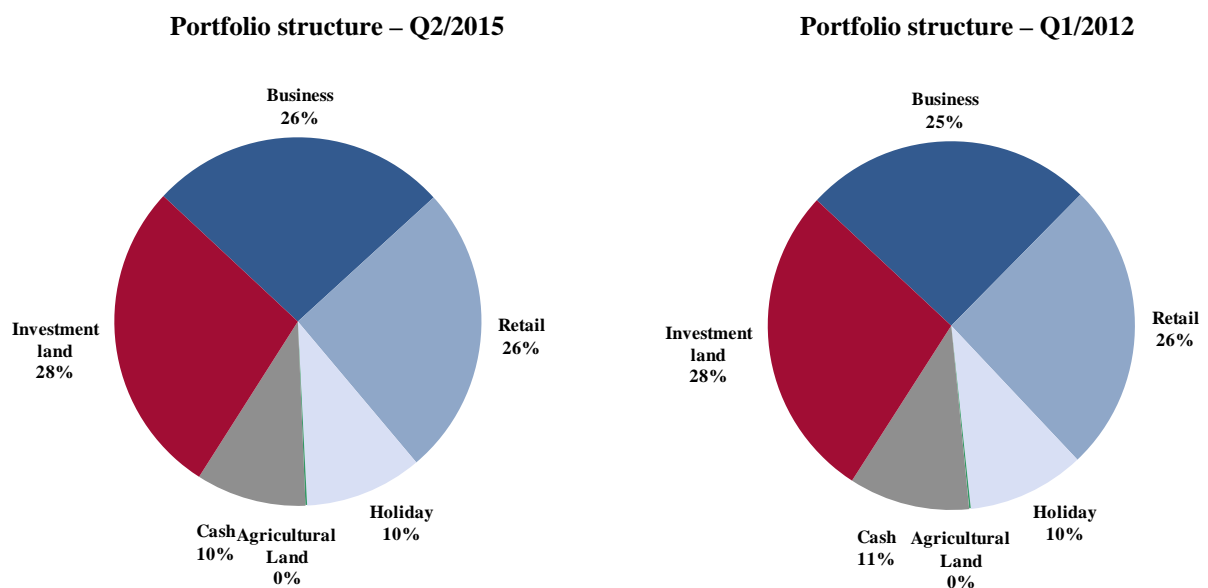
### 2.1 Portfolio structure

During the latest quarter the main change in the portfolio structure is the increase in the share of business properties which came entirely at the expense of the cash. The change resulted from the accumulation of expenses for the construction of the new building and the improvements made to Building 1 in Sofia Business Park. After the latest change, the largest share of the portfolio, i.e. 28%, still belongs to the investment properties, followed by the retail and business properties, each with a share of 26%. 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:

- Delivery and installation of new chillers in Building 1 in Business Park Sofia;
- Organizing the construction works of Kambanite Office Building;
- Marketing the new office building and looking for potential tenants;
- Operational management of Building 1 in Business Park Sofia and renegotiating the current rental agreements;
- 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 June 2015 were nine, diversified in different sectors of the real estate market in Bulgaria.

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



The Fund's last quarter activity was mainly directed towards managing five out of the nine projects. The table below presents the projects segmented in accordance to their degree of completion:

**Table 1 – BREF's investment projects (all amounts in EUR thousands)**

Project	Stage of the project	Size of project	Invested till 30.06.2015	Future investments
<b>Current projects</b>				
"Mr. Bricolage" - sale and leaseback	operational management	10,297	10,297	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	7,577	7,548	29
Kambanite Office Building	in construction	2,990	2,990	7,311
<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>43,154</b>	<b>36,241</b>	<b>7,340</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 30<sup>th</sup> June 2015 is EUR 1.42 million.

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

### Project parameters:

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

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

The tenant paid all amounts due for the rent of both stores in the last quarter. The regular amounts for the insurance of the stores were also paid in time. In addition during the last quarter were performed current repairs of the fire detecting and alarm installation in Sofia store.

## 2.3 Project – Agricultural Land

The total agricultural land owned by BREF as of the end of the second quarter is 404.6 dka, of which 228.6 dka are subject of litigation. The rented out lands are 149.1 dka or 36.8% from the total land. The average annual rental price is about BGN 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 no apartments were sold and as of the end of June 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 the Fund properties is 95.32%. The total price is EUR 7.2 million.

During the quarter the new chillers for the building were delivered and installed and thus the building meets the new HVAC regulations. Meanwhile the company is holding negotiations to let all vacant premises in Building 1 and renegotiates the current rental agreements.

### 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	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.

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.

As of the end of June 2015 the construction works are at stage – shell construction with completed underground floor and ground floor in progress. In addition the Fund has chosen the construction companies for the external connections of the new building.

**Project parameters:**

<b>Office Building Kambanite</b>	
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:**

<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 Turnovo. The properties constitute agricultural land and are still not zoned. During the first quarter of 2015 the Company received an offer to sell part of the properties, as a result of which in March 2015 24,445 sq.m. were sold for BGN 220 thousand. After this sale the remaining properties owned by BREF have a total area of 178,804 sq.m. Meanwhile the Fund temporarily has rented out the properties as agricultural land.

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

**Project parameters:**

Investment Plots near Veliko Turnovo	
Total plots' area	178,804 sq.m
Purchase price	EUR 0.23 M
Status	suspended

## 2.9 Project – Investment plots near Vidin

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

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

**Project parameters:**

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

## 2.10 Project – Investment plots in Sofia – Mladost IV

BREF is the owner of 16 properties, located on the Ring Road of Sofia, at its intersection with Alexandar Malinov Boulevard, westwards, opposite Business Park Sofia. The total area of the properties owned under this project is 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 Q2/ 2015

### 3.1 Summarized Financial Statements

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

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

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

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

(All amounts in EUR '000)	Q2 - 2015	Q1 - 2015	H1 - 2015
Income from sale of assets	-	132	132
Rental income	509	508	1017
Revenue from interest and other financial revenues	1	3	4
Other financial income	16	18	34
Other Income	2	7	9
<b>Total Revenue</b>	<b>528</b>	<b>668</b>	<b>1,195</b>
Value of sold assets	-	(167)	(167)
Interest expense	(22)	(25)	(47)
Management fees	(129)	(128)	(257)
Materials expense	(2)	(2)	(3)
BOD and employees salaries expense	(19)	(19)	(38)
Loss from fair value adjustments	-	-	0
Other expenses	(126)	(143)	(269)
<b>Total expenses</b>	<b>(297)</b>	<b>(484)</b>	<b>(781)</b>
<b>Profit/(loss) for the period</b>	<b>231</b>	<b>184</b>	<b>415</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>Earnings per share - basic and diluted</b>	<b>0.004</b>	<b>0.003</b>	<b>0.007</b>

### 3.2 Liquidity

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

Liquidity Ratios	30.06.2015	31.03.2015
Current ratio	3.76	3.92
Quick ratio	3.12	3.31
Cash ratio	3.08	3.23

During the past quarter the liquidity ratios marked a decrease, caused by the expenses incurred in the construction of the Kambanite office building on the Ring Road in Sofia. Despite the registered changes, the liquidity ratios stayed high with current liquidity being 3.76 and absolute liquidity being 3.08. Our expectations for the next reporting period are for the Company's liquidity to continue decreasing because of the continuing construction of the new building.

#### ■ Internal Sources of Liquidity

In the second quarter of 2015 the internal sources of liquidity saw a decrease in both assets and liabilities. The changes are a result of the decrease of cash and receivables in the assets side and decreased tax liability in the liabilities side.

○ **Short-term (current) assets**

*Table 5A – Current assets as of 30<sup>th</sup> June 2015 and 31<sup>st</sup> March 2015.*

Liquidity sources	30.06.2015	%	31.03.2015	%
<b>Current Assets</b>				
Investment property held for sale	806	16.99%	806	15.59%
Trade receivable	32	0.68%	74	1.43%
Cash and cash equivalents	3,882	81.83%	4,267	82.55%
Other current assets	12	0.25%	7	0.14%
Deferred expenses	12	0.26%	15	0.29%
<b>Total Current Assets</b>	<b>4,744</b>	<b>100%</b>	<b>5,169</b>	<b>100%</b>

After the start of the construction works for the new building of the Fund the current assets have decreased, unlike the long-term ones. As a result of these activities, during the past quarter the short-term assets amount decreased by 8.23%, reaching EUR 4,744 thousand at the end of the period. The overall structure of the current assets is preserved, with a slight increase in the share of the investment properties. After the latest changes the cash amounts to EUR 3,882 thousand and still holds the biggest share in the current assets amounting to 81.83%. As the construction works continue over the next reporting periods, the cash is expected to keep decreasing.

The second position is still held by the investment properties with a share of 16.99% - their value remains the same as in the previous quarter. This item takes into account the book value of the residential building “Sequoia 2” in Borovets resort.

Trade receivables and interest come next with 0.68%. Their value decreases as a result of the payment of rent by tenants and the delivery of cooling machines for Building 1 in Business Park Sofia, paid in advance during the first quarter and registered in the long-term assets. Other important receivables, apart from the interest charged on short-term deposits, are the receivables from lease and the receivables from tenants of Company properties.

Over the next reporting periods, the cash is expected to keep decreasing as a result of the construction of the new building, which will also affect the total current assets amount.

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

*Table 5B – Current liabilities as of 30<sup>th</sup> June 2015 and 31<sup>st</sup> March 2015.*

Liquidity sources	30.06.2015	%	31.03.2015	%
<b>Current liabilities</b>				
Current part of non-current liabilities	940	74.53%	927	70.22%
VAT payable	0	0.00%	59	4.49%
Payables to management company	105	8.31%	105	7.94%
Payables to the personnel and SIC	1	0.04%	4	0.27%
Trade and Other current liabilities	216	17.11%	225	17.08%
<b>Total Current Liabilities</b>	<b>1,261</b>	<b>100%</b>	<b>1,320</b>	<b>100%</b>

During the past quarter the short-term liabilities amount decreased by 4.49%, reaching EUR 1,261 thousand at the end of the period. This change resulted from the payment at the beginning of the quarter of the municipal taxes and fees due and of amounts owed in connection with the construction of the new building. This decrease does not result in a significant change in the structure of the current liabilities, with the biggest share of 74.53% once again belonging to the current payments on the principal of the investment loan, taken out by the Company for the project Mr.Bricolage and the interest accrued on such loan. The slight increase in the absolute value of this item is due to the increasing amount of the monthly payments on the principal of the loan. This amount is expected to gradually increase over the subsequent reporting periods until the outstanding amount of the only investment loan taken out by the Company has been repaid.

Trade and other payables once again come third at 17.11%. Their amount decreased by 4.31% due to the payment of the amounts owed in connection with the annual closing of accounts. Other larger liabilities within this item include prepaid rent amounts and the security deposits obtained from the tenants in Building 1 in Sofia Business Park, as well as the provisions made by the Company for legal proceedings for agricultural lands.

The amounts payable to the servicing company come next. Their value remains the same, with this item including payables in connection with the construction of the new building.

During the next reporting period payables related to the construction of the new building will keep accruing, which will contribute to the increase of the total current liabilities amount.

### ■ External Sources of Liquidity

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

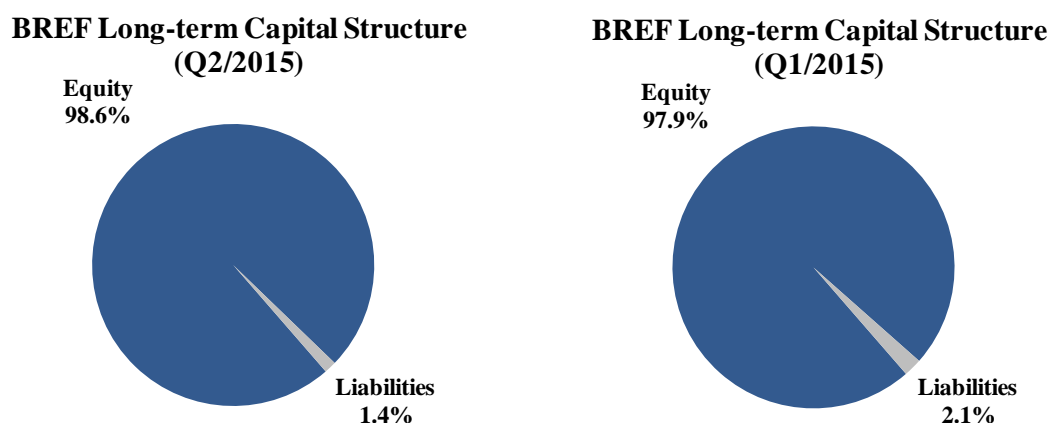
BREF has sufficient financial resources available to fully support its activity until the end of the year, but if necessary BREF is ready to secure additional liquidity through bank loan. From viewpoint of allocation of free resources for project implementation, BREF will focus mainly in the construction of the new building, in current repairs in the existing buildings and in searching for new investment projects.

### 3.3 Capital resources

At the end of June 2015 the long-term capital of BREF, both equity and borrowed capital, recorded a decrease of 0.02% to EUR 35,053 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 1.4%, as compared to 2.1% 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	30.06.2015	31.03.2015
Debt-to-Equity	0.06	0.07
Non-Current Assets-to-Equity ratio	0.92	0.92
Long-term-Debt-to-Non-Current-Asset ratio	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 June 2015 the equity of BREF is EUR 34,566 thousand, which represents an increase of 0.67% as compared to the prior quarter. The recorded increase is wholly due to the registered by the Fund profit for the period.

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

Equity (in thousands)	30.06.2015	31.03.2015
Share capital	30,908	30,908
Share premium	5,016	5,016
Retained earnings	(1,357)	(1,588)
<b>Total equity</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 June 2015 totals EUR 1.42 million. The term of the loan is by December 2016. No new investment loans were utilized during the quarter under review.

## ■ Capital expenses during the next periods under review

The Fund's investment strategy for 2015 is focused mainly on constructing the new office building on the Ring Road in Sofia. In addition new capital expenditures are expected for Building 1 in Business Park Sofia, where repairs of the common parts are planned.

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

At the end of the second quarter the amount of the assets held by BREF decreased by 0.23% to EUR 36,645 thousand, compared to the end of the previous quarter, when the value of the assets amounted to EUR 36,728 thousand. This decrease is mainly due to the payment of the principal of the investment loan during the reporting period and the payment of the taxes, owed at the end of March 2015.

**Table 6 – Asset structure**

Asset structure (thousand EUR)	30.06.2015	% share	31.03.2015	% share
<b>Non-current assets incl.</b>	<b>31,901</b>	<b>87.05%</b>	<b>31,559</b>	<b>85.93%</b>
- total property	30,981	84.54%	30,981	84.35%
- cost for acquisition of fixed assets	558	1.52%	216	0.59%
<b>Current assets incl.</b>	<b>4,744</b>	<b>12.95%</b>	<b>5,169</b>	<b>14.07%</b>
- trade receivable	32	0.09%	74	0.20%
- investment property held for sale	806	2.20%	806	2.19%
- cash and cash equivalents	3,882	10.59%	4,267	11.62%
<b>Total assets</b>	<b>36,645</b>	<b>100%</b>	<b>36,728</b>	<b>100%</b>

The assets structure did not change significantly, and there was a gradual increase in the share of the long-term assets which reached 87.05%, compared to 85.93% at the end of the previous quarter. This change results mainly from the cash invested into the construction of the new building, which increases the long-term assets amount, respectively decreases the short-term assets amount. During the next quarter, as the expenses for the construction of the new building accrue, the share of the cash is expected to keep decreasing, respectively the share of the expenses for the acquisition of tangible fixed assets is expected to keep increasing.

### 3.5 Financial Results

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

#### ■ Revenue from operations

During the quarter under review the reported revenue amounted to EUR 528 thousand, which constitutes a decrease of 20.98% as opposed to the previous quarter. The main reason for this result is the absence of sales of properties registered during the period under review.

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

Revenue (in thousand EUR)	Q2 - 2015	Q1 - 2015	H1 - 2015
Income from sale of assets	0	132	132
Rental income	509	508	1,017
Revenue from interest and other financial revenues	1	3	4
Other financial income	16	18	34
Other Income	2	7	9
<b>Total revenue</b>	<b>528</b>	<b>668</b>	<b>1,195</b>

During the past quarter the largest share of 96.41% belonged once again to the rental income. Its amount stayed constant at EUR 509 thousand, with slight changes registered as a result of the indexations of some of the rents. The expectations for the next quarter are for the rental income to stay the same as during the past quarter.

What comes next is the income from the change in the value of the swap, accomplished on the loan for the funding of the purchase of the Mr. Bricolage shops. This revenue is expected to decrease as the utilization of the loan amount ends.

The largest decrease belongs to the Sale of assets item. Unlike the first quarter, there are no new sales during this period, respectively no revenue of this kind.

The rental income is expected to remain the same during the next quarter and if there is no revenue from sales of properties, the total revenue amount is also expected to remain the same.

#### ■ Expenses from operations

During the past quarter the total expenses of BREF decreased by 38.58%, mainly due to the absence of written-off assets from the Fund's balance sheet.

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

Expenses (in thousand EUR)	Q2 - 2015	Q1 - 2015	H1 - 2015
Value of sold assets	0	(167)	(167)
Interest expense	(22)	(25)	(47)
Management fees	(129)	(128)	(257)
Materials expense	(2)	(2)	(3)
BOD and employees salaries expense	(19)	(19)	(38)
Loss from fair value adjustments	0	0	0
Other expenses	(126)	(143)	(269)
<b>Total expenses</b>	<b>(297)</b>	<b>(484)</b>	<b>(781)</b>

The management fee expenses held the largest share in the second quarter of 2015, i.e. 43.37%. This expense item stayed the same as during the previous quarter, which is expected to continue as a trend during the next reporting periods as well.

The Other Expenses item came second at 42.34%. This decrease resulted from the absence of specific expenses in connection with the annual closing of accounts of the Company. Within this item the largest share is held by tax expenses related to real estate properties. Other significant expense amounts under this item belong to expenses for external services related to property management, expenses for bank fees and other administrative expenses.

Interest expenses come next with a share of 7.40%, which includes paid and accrued interest on the loan for Mr. Bricolage and the expenses in connection with the interest rate swap used on said loan. This item registered a decrease as a result of the decrease in the outstanding principal of the loan that was taken out. During the subsequent reporting periods the paid interest amount is expected to keep decreasing until the loan for the Mr. Bricolage project is fully repaid.

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

## ■ Financial result

In the second quarter of 2015 the Company realised a profit of EUR 231 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 by quarters and accumulated since the beginning of 2015.*

Financial Result	Q2 - 2015	Q1 - 2015	H1 - 2015
Revenues	528	668	1,195
Expences	(297)	(484)	(781)
<b>Net profit/loss for the period</b>	<b>231</b>	<b>184</b>	<b>415</b>

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

Results per share (EUR '000)	2015**	2014	2013	2012
Earnings	415	(1,893)	862	879
Earnings per share (EPS)	0.007	-0.031	0.014	0.015
Net asset value (NAV)	34,566	34,152	36,045	37,006
Commom shares outstanding	60,450	60,450	60,450	60,450
NAV per share	0.572	0.565	0.596	0.612
Dividend per share	0.0000	0.0000	0.0122	0.0152
Share fair value*	0.572	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 June 2015 increased from EUR 0.565 per share to EUR 0.572 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, 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 June 2015, considering the investment bank loan of the Fund, it is exposed to interest rate risk regarding possible changes in the interest rate levels. In order to minimize this risk BREF has concluded a contract for interest swap according to which it exchanges a floating for a fixed interest rate. The Fund is in constant contact with the creditor bank regarding optimization of the interest payments.

***Foreign currency risk***

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

***Liquidity risk***

The company is exposed to liquidity risk with regard to paying off its current liabilities. At current, the Fund has enough available funds to finance its operative and investment activity. Considering the funds deposited in bank accounts and the current rental income, the Fund believes that it has enough liquid sources to cover its needs until the end of the year and 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 second quarter of 2015 the shares of the Bulgarian Real Estate Fund (BREF) registered a decrease of 6.63%, and the decrease registered over the past one year was 9.71%. The fluctuating performance of the shares for the past 12 months can be attributed to the increased systematic risk for Bulgaria as a result of the attempts to destabilize the banking system and the ensuing political crisis in 2014. At the beginning of the year, the price of the shares of the Fund and of other special investment purpose companies was affected by the debates on the imposition of fines on companies with participation of shareholders from countries outside the European Union or from off-shore companies. These proposals came less than a year after it had been prohibited for natural persons outside the EU to own agricultural land in Bulgaria.

For the sake of comparison, in the second quarter of 2015 the SOFIX index marked a minimum drop of 0.5%, while the broad-based BGBX 40 lost 3.35% of its value. BGREIT, the index that reflects the performance of companies investing in real estate and at the same time constitutes a more accurate measurement of the performance of the Bulgaria Real Estate Fund, marked a negative yield of -1.19%.

Risk factors for the Bulgarian economy and more specifically the performance of public companies on the capital market would include poorer growth of the economies in the Eurozone and their approaching zero growth, the Greek debt crisis going on for a longer period and potential problems for the third bailout package.

Summarized trading details for the 52 week period – 1<sup>st</sup> July 2014 – 30<sup>th</sup> June 2015:

- Opening Price – BGN 0.539 (1 July 2014)
- Closing Price – BGN 0.465 (30 June 2015)
- Highest Price – BGN 0.587 (8 December 2014)
- Lowest Price – BGN 0.446 (26 June 2015)
- Total Trading Volume – 7,396,359 shares
- Turnover for the period – BGN 3,692,978 (EUR 1,888,190)
- Weighted average price – BGN 0.499
- Market Capitalisation (30.06.2015) – BGN 28,109,250 (EUR 14,372,031)

**BREF Share Price Performance  
(01.07.2014 - 30.06.2015)**

