

“Bulgarian Real Estate Fund”

Summary Annual Report 2013



14 April 2014

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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 8 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 (31.12.2013)	Shares Outstanding
Bulgarian Stock Exchange Sofia	5BU (BREF)	EUR 16,442,840	60,450,000

2 Portfolio

BREF has engaged in numerous projects ranging in size, activity and geographical location. Our well 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.

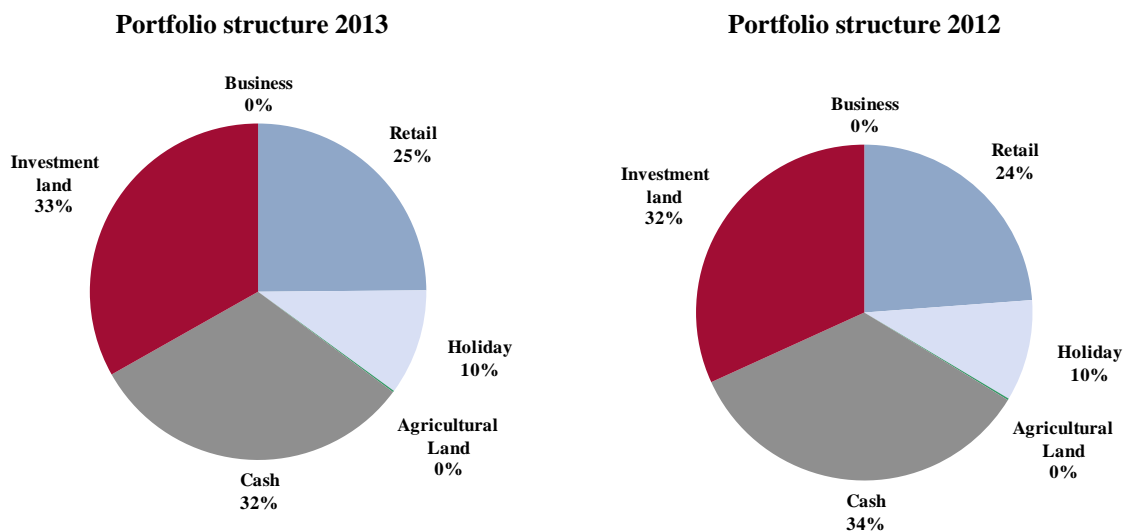
2.1 Portfolio Structure

In the past year the main changes in the structure of BREF's portfolio resulted from paying the dividends for 2012, which amounted to EUR 2,003 thousand. As a result the share of cash and cash equivalents has decreased to 32%, while the investment properties have come first with 33%. Next with 25% share are the retail properties, followed from holiday properties with 10%. The key highlights during the past year were as follows:

- Carrying out planned repairs of the “Mr. Bricolage” stores situated in Sofia and Varna;
- Participating in the initiative for building of road infrastructure up to the property on the seaside;
- Regulating land plots in Sofia – Ring road;
- Active marketing of the apartments and garages in apartment house Sequoia II – Borovetz;
- Conducting negotiations for acquisition of a functioning office building;
- Assessment of investment opportunities on the office and residential markets in Sofia;
- Looking for new investment projects of BREF.

The projects managed by BREF as of the end of December 2013 were eight, diversified in all sectors of the real estate market in Bulgaria.

Figure 1: Investment allocation in types of market sector



The Fund's last year activity was mainly directed towards managing three out of the eight 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 31.12.2013	Future investments
Current projects				
"Mr. Bricolage" - sale and leaseback	Operational management	10,271	10,271	0
Agricultural land	Operational management	60	60	0
Apartment house "Sequoia2" - Borovetz	for sale	1,891	1,891	0
Pipeline projects				
Seaside Holiday Village	suspended	9,203	2,314	0
Investment plots near Veliko Tarnovo*	suspended	262	262	n.a
Investment plots near Vidin*	suspended	301	301	n.a
Investment plots in Sofia - Ring road*	suspended	2,486	2,486	n.a
Investment plots in Sofia - Mladost IV*	suspended	10,664	10,664	n.a
Total		35,139	28,249	0

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

From the above-mentioned projects “Mr. Bricolage” – sale and leaseback and Agricultural land are currently operational, whereas apartment house “Sequoia II” 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 on the Ring road and in Mladost IV district. In January 2014 acquiring an office building BREF started a new project, which during the current year will be in the stage of operational management.

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 EFG Bulgaria at the amount of EUR 7 million. The non-paid principal on the loan as of 31st December 2013 is EUR 2.73 million.

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

Project parameters:

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

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

According to the recent clauses in July 2013 the total monthly rent for the stores was increased up to EUR 92,400. The next rent indexation will happen at the beginning of 2014.

In 2013, there were no delays from the tenant in terms of rent payments. The Fund has made payments for all due amounts for insurance and property taxes of both stores.

In 2013 were performed some planned repairs of both stores. In the beginning of the year was completed the repair of the roof of the store in Varna and later on was repaired the parking. In

Sofia as a result of leakage was replaced part of the water pipe system and performed related repairs of the parking surface.

2.3 Project – Agricultural land

The total agricultural land owned by BREF as of the end of December 2013 is 416.7 dka, of which 240.6 dka are subject of litigation. During the year due to court decision BREF lost 38 dka in Veliko Tarnovo district, which were written off from the Fund's balance.

The rented out lands are 149.1 dka or 36% from the total land. The average annual rental price is about BGN 40.39 per dka. The rents for the last agricultural year 2012/2013 are 100% collected, as well as 93% and 92% of the rent receivables for 2010/2011 and 2011/2012 periods correspondingly.

Project parameters:

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

2.4 Project – Apartment house “Sequoia 2” - Borovetz

In the end of 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 3,527.3 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.

Because of the difficult times on the vacation properties market and the weak interest from potential buyers no apartments were sold during the year. As of the end of December 2013 a total of seven apartments have been disposed of and 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	29
Current Investment	EUR 1.89 M

2.5 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
Invested until 2012	EUR 2.3 M

2.6 Project – Investment plots near Veliko Turnovo

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

Currently the activity of the Fund regarding the future development of the property is suspended until more favorable market conditions arise. Meanwhile during the last year due to an interest from a local farmer part of the property was temporarily rented as agricultural land.

Project parameters:

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

2.7 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 was 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

2.8 Project – Investment plots in Sofia – Ring Road

Within the period 2006 – 2007 the Fund acquired six land plots in the vicinity of Vitosha Mountain, neighboring the already realized KBC project. The total size of the acquired proprieties was 18,052 sq.m. After the sale in 2011 of some of the plots BREF remain owner of 11,081 sq.m.

The area is featured by fresh mountain air, good transport infrastructure of the Ring Road, proximity to Residential Park Sofia and Business Park Sofia and majority of other commercial sites like Technopolis, COMO and IKEA. All these make the project attractive for future development.

During the past year the Fund completed the procedure for regulating the plots remained ownership of BREF after the KBC deal. According to the new regulation the property belong to zone “Oz2” with the corresponding building parameters for this type of area.

Project parameters:

Investment Plots in Sofia - Ring Road	
Total plots' area	11,081 sq.m
Purchase price	EUR 2.48 M
Status	suspended

2.9 Project – Investment plots in Sofia - Mladost IV

BREF is owner of 17 land plot situated on Sofia's Ring Road in its crossing point with "Alexander Malinov" Blvd., to the west of Business Park Sofia. After some sales during the past years as of the end of December 2013 the total area of the owned land plots is 42,190 sq.m.

In 2008 Sofia Municipality has started new rezoning procedure of the whole district, which has postponed the investment intentions of BREF until the procedure is over. Currently the new structural plan is announced for second final time, but due to objection raised by one of the current owners the procedure is stopped until this objection is rejected.

Project parameters:

Investment Plots, Sofia - Mladost IV district	
Total plots' area	42,190 sq.m
Purchase price	EUR 10.66 M
Status	suspended

3 Financial Highlights 2013.

3.1 Summarized Financial Statements

The following financial statements are created in full compliance with the International Accounting standards and are based on the audited annual financial statements for 2013 and 2012.

Table 3 – Balance sheet as of 31st Dec 2013 and 31st Dec 2012.

(All amounts in EUR '000)	31.12.2013	31.12.2012
ASSETS		
Non-current Assets		
Investment property	25,417	25,372
Plant and equipment	2	3
Total Non-current Assets	25,418	25,375
Current Assets		
Investment property held for sale	1,210	1,223
Trade and other receivables	147	525
Cash and cash equivalents	13,073	14,851
Deferred expenses	5	5
Total Current Assets	14,435	16,604
TOTAL ASSETS	39,854	41,979
EQUITY AND LIABILITIES		
Equity		
Share capital	30,907	30,907
Share premium	5,016	5,016
Retained earnings	122	1,083
Total equity	36,045	37,006
Non-current liabilities		
Interest bearing loan	1,864	2,721
Derivative financial instrument	164	290
Total Non-current liabilities	2,028	3,011
Current liabilities		
Current part of non-current liabilities	867	823
Provisions for dividends due	740	920
Trade and other current liabilities	174	219
Total Current liabilities	1,781	1,962
Total liabilities	3,809	4,973
TOTAL EQUITY AND LIABILITIES	39,854	41,979

Table 4 – P&L statement for the years ending on 31st Dec 2013 and on 31st Dec 2012.

(All amounts in EUR '000)	2013	2012
Rental income	1,100	1,090
Interest income	742	1,071
Gain on derivative financial instrument	126	52
Net gains from fair value adjustments	39	-
Other Income	48	195
Total Revenue	2,055	2,408
Interest expense	(182)	(234)
Management and success fees	(553)	(564)
Direct operating expenses arising from properties	(301)	(197)
BOD remunerations	(46)	(40)
Employee benefit costs	(13)	(14)
Net loss from fair value adjustments	-	(144)
Other expenses and foreign exchange differences	(98)	(336)
Total expenses	(1,193)	(1,529)
Profit/(loss) for the period	862	879
Weighted average number of shares in the year (in thousands)	60,450	60,450
Earnings per share - basic and diluted	0.014	0.014

3.2 Liquidity

Table 5 – Liquidity ratios as of 31st Dec 2013.

Liquidity Ratios	31.12.2013	31.12.2012
Current ratio	8.10	8.46
Quick ratio	7.42	7.84
Cash ratio	7.34	7.57

After payment of the 2012 dividend in July, the liquidity ratios recorded a decrease. The decrease was due to the lower relative decline of 9.22% of the current liabilities vs. 13.1% of the current assets. Following the change, the ratios are still quite high, the current liquidity reaching 8.10, and the cash liquidity 7.34. The liquidity ratios are expected to decline in the next year, after the start of a new project in the end of January 2014.

■ Internal sources of liquidity

Despite the decline of the short-term assets and liabilities in 2013, BREF retained internal liquidity sources of significant amount.

- Short-term (current) assets

Table 6A – Sources of liquidity as of 31st Dec 2013.

Liquidity sources	31.12.2013	%	31.12.2012	%
Current Assets				
Investment property held for sale	1,210	8.38%	1,223	7.37%
Trade and other receivables	147	1.02%	525	3.16%
Cash and cash equivalents	13,073	90.56%	14,851	89.45%
Deferred expenses	5	0.03%	5	0.03%
Total Current Assets	14,435	100%	16,604	100%

The total amount of the short-term assets decreased by 13.06%, reaching EUR 14,435 thousand, as compared to EUR 16,604 thousand one year earlier. The main reasons for this decrease were the smaller amount of cash and of the trade receivables. Those changes do not change materially the structure of the assets, the greatest share being again that of cash – 90.56%. Its amount decreased by 11.9%, amounting to EUR 13,073 thousand in the end of the year, as compared to EUR 14,851 thousand one year earlier. The reasons for this decrease was, as stated above, the 2012 dividend paid in the summer.

The investment properties held for sale and trade come second with 8.38%. The book value of the “Sequoia 2” residential building in Borovets resort is reflected here. The recorded decrease in the value is a result of the final year revaluations. The total book value of the project is expected to decline in the next reporting periods with the sale of new apartments.

The third source of liquidity in this year is the Trade and other receivables. Their value declined by 72%, reaching EUR 147 thousand, as compared to EUR 525 thousand one year earlier. The major reasons for the recorded decline are the received interest from short-term deposits in the amount of EUR 420 thousand. The new receivables accrued by the end of 2013 are EUR 65 thousand. Other major receivables recorded under this item are the receivables from the managing company in the amount of EUR 67 thousand, the major part of which are receivables related to construction works of the Kambani Business Centre project.

The Company management expects that the amount of the current assets will decline as a result of the new investment project, which started in January 2014.

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

Table 6B – Sources of liquidity as of 31st Dec 2013.

Liquidity sources	31.12.2013	%	31.12.2012	%
Current liabilities				
Current part of non-current liabilities	867	48.68%	823	41.97%
Provisions for dividends due	740	41.56%	920	46.92%
Trade and other current liabilities	174	9.76%	219	11.16%
Total Current Liabilities	1,781	100%	1,961	100%

The total amount of the current liabilities decreased by 9.22%, reaching EUR 1,781 thousand, as compared to EUR 1,961 thousand one year earlier, the main reason for this being the decline of the provision for payable dividend and the decline in the commercial liabilities. The change occurred also in the structure of the liabilities, provided that the share of the Short-term loans and interests recorded growth, mostly on account of the provisions for dividends.

The biggest share of 48.68% for the year was that of Short-term loans and accrued interest. This item includes the amount of the contributions under the principal of the remaining investment loan of the company payable during the next one year and the interest accrued under it at the end of the year. The weak growth under this item is a result of the increasing amount of the monthly payments under the principal of the utilized 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 Fund.

The BREF provisions for dividends for the financial 2013 in the amount of EUR 740 thousand come second with a share of 41.56% of the current liabilities at the end of 2013. The accrued provisions for dividend due represent 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 2013 will be determined at the General meeting of the shareholders at which the financial results for 2013 will be put to vote.

At the end of 2013 the trade and other liabilities recorded a decline of 20.56%, which entailed decline of their share in the structure of the current liabilities. The recorded decline in the value

of such liabilities is a result of the fee of the managing company for the prior year, paid at the beginning of the year, and the obligations related to the agent's commission under old property sale agreements written off in the end of the year and recognised as income in the Income statement.

During the last reporting period BREF does not expect significant changes in the value of the short-term liabilities, provided that the new provisions for 2014 dividend and the company obligations under the Mr. Bricolage investment loan repayment will influence this.

■ 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, as well as to fully pay the 2013 dividend. From viewpoint of allocation of free resources for project implementation, BREF will focus mainly in searching for new investment projects and currently does not intend to attract new funds from external sources.

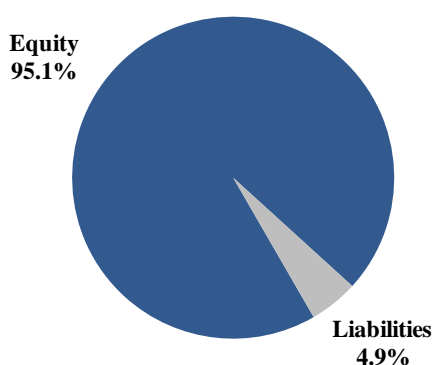
3.3 Capital resources

At the end of December 2013 the long-term capital of BREF, both equity and external financing, is EUR 37,909 thousand, which represents a decline of 4.58%, or EUR 1,823 thousand, as compared to the prior year. This change is a result of the repaid principal of the investment loan of the Fund, the paid additional dividend for 2012 and the accrued provision for dividend for 2013, which leads to decrease of the equity and increase of the short-term obligations.

The reduced value of the equity and the reduction of the long-term attracted funds change the structure of the capital, provided that reduction of the share of the external financing is observed, reaching 4.9%, as compared to 6.8% at the end of the previous year. The distribution between equity and borrowed funds is presented in the figures below.

Figure 2: Allocation between equity and long-term external financing

BREF Long-term Capital Structure 2013



BREF Long-term Capital Structure 2012

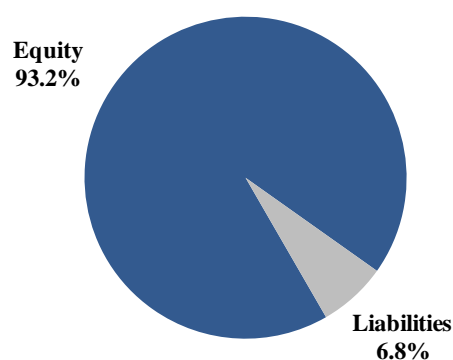


Table 7 – Leverage ratios

Leverage ratios	31.12.2013	31.12.2012
Debt-to-Equity	0.11	0.13
Non-Current Assets-to-Equity ratio	0.71	0.69
Long-term-Debt-to-Non-Current-Asset ratio	0.07	0.11

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

■ Equity

At the end of 2013 the equity of the Fund was EUR 36,045 thousand, which represented a decline of 2.6% as compared to 2012. The recorded decline is a result of the additionally paid dividend over the year and the allocated provisions for dividend for 2013 in the amount of EUR 740 thousand, which was primarily compensated by the recorded profit of EUR 862 thousand for the year.

Table 8 – Total equity as of 31st Dec 2013.

Equity (in thousands)	31.12.2013	31.12.2012
Share capital	30,907	30,907
Share premium	5,016	5,016
Retained earnings	122	1,083
Total equity	36,045	37,006

■ External financing

In the past year the Fund has been paying regularly all due installments on its investment loan utilized for financing the Mr. Bricolage project. The total non-paid principal on the loan at the end of December 2013 is EUR 2.73 million. The maturity date of the loan is December 2016. No new investment loans have been utilized during the reviewed period.

■ Capital expenses during the next year

The investment strategy of the Fund for 2014 will be exclusively directed towards the operational management of the undergoing projects, but will also seek new investment opportunities.

We envisage utilizing the current capital resources to finance the Fund's current and future projects. However, should a necessity arise, BREF is prepared to use debt capital.

3.4 Assets structure

The amount of the BREF assets by end-December 2013 declined by 5.06% to EUR 39,854 thousand, as compared to the end of 2012, when the amount of the assets was EUR 41,979 thousand. The recorded decline is a result of the smaller amount of cash and cash equivalents and trade receivables at the end of the year.

Table 9 – Asset structure

Asset structure (thousand EUR)	31.12.2013	% share	31.12.2012	% share
Non-current assets incl.	25,418	63.8%	25,375	60.4%
- total property	25,417	63.8%	25,372	60.4%
Current assets incl.	14,435	36.2%	16,604	39.6%
- trade receivable	147	0.4%	525	1.2%
- investment property held for sale	1,210	3.0%	1,223	2.9%
- cash and cash equivalents	13,073	32.8%	14,851	35.4%
Total assets	39,854	100%	41,979	100%

The total structure of the assets is changed mainly as a result of the payment of dividend for 2012, hence the recorded change in the structure of the short-term assets. The share of the long-term assets increased from 60.4% to 63.8% at the end of the year on account of the short-term assets. The increase in the value of the long-term assets is as a result of the bigger amount of the investment properties, which recorded an increase following the end-of-year revaluations.

Over the period the structure of the short-term assets did not underwent a significant change, the greatest share again being that of cash, followed by the investment properties hold for sale and trade receivables and interest.

3.5 Financial Results

The Fund operation in 2013 was focused mainly on the ongoing management of the Mr. Bricolage project, looking for new investment projects and efficient management of free cash resources.

■ Revenue from operations

Over the year the income of the Fund declined to EUR 2,056 thousand, which is decrease of about 14.6% as compared to the prior year. The main reason for this is the lowered income from interest and the lower value of the Other income item.

Table 10 – Revenues accumulated in 2013 and 2012.

Revenue (in thousand EUR)	2013	% share	2012	% share
Rental income	1,100	53.5%	1,090	45.3%
Interest income	742	36.1%	1,071	44.5%
Gain on derivative financial instrument	126	6.1%	52	2.2%
Net gains from fair value adjustments	39	1.9%	-	-
Other Income	48	2.3%	195	8.1%
Total revenue	2,056	100%	2,408	100%

The total structure of the income is preserved and again the income from rent and income from interest have the greatest share. The share of the profit of the derivative financial instrument also recorded an increase.

In 2013 the income from rent recorded minimum increase of 0.89%, reaching EUR 1,100 thousand. This increase is a result of the indexation of the rents of the Mr. Bricolage project, which are the main items of income in the income statement. Additional indexation of rent income on Bricolage project and additional income from rent under the new project of the Fund are expected in 2014.

Material change in 2013 was observed in the Income from interest item. The recorded decrease over the reporting period amounts to 30.7% and is a result from the lower amount of cash at hand after payment of the dividend for 2012 to the account of the Fund and the decreasing interest from deposits. Another decrease of the income from interest is expected in the next reporting period after the investment made at the beginning of this year.

The Other income item records a significant decrease (75.3%). The main reason for this decrease is the absence of one-time income of the type of the provisions under guarantee obligations under construction agreements, accrued at the end of 2012. Over the past year that income contained the recovered provisions for bad rent receivables and written-off obligations to the managing company.

The Fund expects that over the next year the total income will increase as a result of the start of the new investment project. The main items of income will again be the income from rent from the Mr. Bricolage project and the new building in Business Park Sofia and the income from interest from deposits.

■ Expenses from operations

Just like the income, the expenses also marked a decline of 21.9%. The underlying reason for this decline was the absence of negative net revaluation of assets and the significantly lower value of the Other income item.

Table 11 – Realized expenses in 2013 and 2012

Expenses (in thousand EUR)	2013	% share	2012	% share
Interest expense	(182)	15.3%	(234)	15.3%
Management and success fees	(553)	46.4%	(564)	36.9%
Direct operating expenses arising from properties	(301)	25.2%	(197)	12.9%
BOD remunerations	(46)	3.9%	(40)	2.6%
Employee benefit costs	(13)	1.1%	(14)	0.9%
Net loss from fair value adjustments	-	-	(144)	9.4%
Other expenses and foreign exchange differences	(98)	8.2%	(336)	22.0%
Total expenses	(1,193)	100%	(1,529)	100%

The change in the structure of the expenses in 2013 was mainly a result of the absence of loss from revaluation of assets and the significant decrease of the Other income item. The biggest share was that of the fee of the managing company, 46.4%. The recorded decrease in the amount is a result of the decrease of the net assets of the Fund, which is directly linked to the MNI fee.

The Direct operating expenses arising from properties come second with 25.2%. Their increase is mainly linked to expenses related to regulation of the properties at the Sofia - Ring Road and the expenses for the repairs over the year. The expenses on local taxes and charges account for a big share of those expenses. The expenses are expected to grow over the next reporting period with the start of the new investment project at the beginning of this year.

The Expenses on interest, amounting to 15.3% of the structure of the expenses for 2013 come next and they include accrued and paid off on the loan and the cost of the interest swap used up for financing the Mr. Bricolage project. This entry records a decline, which is 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 following reporting periods, until the final repayment of the principal under current loan of the Fund.

The biggest decrease of 71% in the expenses for 2013 was recorded in the Other expenses item. The recorded decrease is a result of the provisions in the amount of EUR 258.7 thousand in 2012 of receivables that were difficult to collect under transactions with real estates, provided that those expenses were absent in the 2013 income statement. The major part of this item includes administrative expenses related to the BREF operations management.

With the implementation of the new investment project at the beginning of 2014 the Fund expects that over the next reporting period the total expenses will increase, provided that the major increase will be in the expenses related to properties generating income from rent.

■ Financial result

Over the last year BREF recorded decrease of the financial result, which was EUR 862 thousand for 2013. The main reason for the decrease was the lower income from interest from deposits and the bigger amount of operating property-related expenses. The implementation of the new investment project is expected to lead to increase of the income from rent and accordingly the Fund profit.

Table 12 – Financial results for 2013 and 2012.

Financial Result	2013	2012
Revenues	2,055	2,408
Expences	(1,193)	(1,529)
Net profit/loss for the period	862	879

Accounting profit divided to the average shares outstanding during the year gives earnings per share (EPS) of EUR 0.014. Provisions for dividends for 2013 estimated pursuant to Article 10, paragraph 3 from the Act on Special Investment Purpose Companies amount to EUR 740 thousand, which makes a gross dividend per share to the amount of EUR 0.0122 per share.

Table 13 – Financial results per share

Results per share (EUR '000)	2013	2012
Earnings	862	879
Earnings per share (EPS)	0.014	0.014
Net asset value (NAV)	36,045	37,006
Common shares outstanding	60,450	60,450
NAV per share	0.596	0.612
Dividend per share	0.0122	0.0152
Fair value per share	0.609	0.627

*Fair value per share = NAV per share + dividend per share

The NAV per share over the expired reporting period declined by EUR 0.612 per share to EUR 0.596 per share, which represents 2.6% decline on an annual basis. The recorded decline in the net value per share is a result of the additionally distributed dividend over the year and from the allocated provision for dividend for 2013 in the amount of EUR 740 thousand, which is detract from the Fund equity and decreases the net asset value.

■ Potential risks

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 2013, 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. Currently the Fund has enough available funds to finance its operative and investment activity. Considering the funds deposited in bank accounts, the current rental income and the amount of dividends due for 2013, in the next year the company has enough liquid sources to cover its needs and there is no necessity to borrow from external sources.

Construction risk

Provided that the construction works being carried out by BREF are minimal at the moment and all past construction has been completed, the Fund considers that it is not exposed to this kind of risk.

4 Events after the reporting date

On 30 January 2014 BREF acquired 3,532 square meters of office areas situated on six floors of Building 1B in Business Park Sofia and 25.33% shares of the land where the building is erected. The current occupancy level of the acquired office areas is 75%. The purchase price of the property is EUR 2.5 million without VAT. The building was commissioned in 2005 and in the last two years the building undergone major repair of most of the acquired office premises.

5 Share performance

On a yearly basis, the shares of the Fund record a minor increase of 3.10%. It should be noted that in 2013 the company paid a dividend from the profit for 2012. The last date for trade with the right to dividend was 25 July 2013, when the price of a share was BGN 0.607. On the following day the shares closed at a price of BGN 0.559 per share. The paid dividend was BGN 0.06481 per share.

Generally, BGREIT, the index reflecting the performance of the companies investing in real estates, realised a good profit in 2013 increasing by 11.66%. In comparison, the base benchmark index on the Bulgarian Stock Exchange, SOFIX, registered an increase of 42.28% for 2013. The big difference in the realised income may be explained by the investor's preference to invest in companies operating in sectors other than real estates.

It can be expected that in 2014 the interest in the Bulgarian stock market by local and foreign investors will continue. The positive economic data and trends in Europe and USA entail a feeling of security at a global macroeconomic level.

Summarized trading details for the 52 week period – 1st January 2013 – 31st December 2013:

- Opening Price – BGN 0.516 (2 January 2013)
- Closing Price – BGN 0.532 (30 December 2013)
- Highest Price – BGN 0.623 (12 June 2013)
- Lowest Price – BGN 0.515 (2 January 2013)
- Total Trading Volume – 10,055,680 shares
- Turnover for the period – BGN 5,702,260 (EUR 2,915,519)
- Weighted average price – BGN 0.567
- Market Capitalisation (31.12.2013) – BGN 32,159,450 (EUR 16,442,840)

**BREF Share Price Performance
(01.01.2013 - 31.12.2013)**

