

BULGARIAN REAL ESTATE FUND (BREF)

INDUSTRY: REIT/DIVERSIFIED REAL ESTATE

GEARING UP AMIDST AWAKENING REAL ESTATE MARKET

WITH 10% 5YR AVERAGE DIVIDEND YIELD AND AMONG THE PIONEERS IN REAL ESTATE SECURITIZATION IN BULGARIA, BULGARIAN REAL ESTATE FUND REIT, IS SET ON A NEW PATH TO CAPITALIZE ON ITS OFFICE SEGMENT EXPERTISE AS THE REAL ESTATE MARKET AWAKENS WITH OFFICE DEMAND ALREADY ON THE RISE.

PIONEERING REAL ESTATE SECURITIZATION

Bulgarian Real Estate Fund REIT (BREF, the Company or the Fund) is among the pioneers in real estate securitization in Bulgaria. Established in 2004, it raised EUR 36m and built up a diversified portfolio of real estate projects skewed in the office and the retail segments, representing 30% and 25% of the fund's portfolio respectively. The principal investment objective of the Fund is to provide a combination of current income and long-term appreciation of its capital.

EXCELLENT PERFORMANCE AND INVESTOR RETURN TRACK RECORD

Since inception, BREF has successfully exited office space projects worth more than EUR 40m and returned to investors EUR 13.5m via dividends or 10% 5YR average dividend yield. We expect future yields to stay around 6% as the rental income becomes the fund's main revenue generator, making it more stable and predictable. No dividends were provisioned for 2014, as the Fund registered revaluation loss. We expect dividends to resume from 2015 profits.

ATTRACTIVE INVESTMENT OPPORTUNITY WAITING TO BE NOTICED

The Fund's diversified portfolio has to an extent paid the price of diversification. Several of its projects have been suspended due to the collapse in the local real estate market in 2008. Nevertheless, its key office and retail projects continue to generate stable revenue and currently make it an attractive investment with P/B and P/NAV ratios of 0.44 and 0.57, respectively, and negligent leverage.

BACK IN INVESTMENT MODE

With the awakening of the local real estate market, driven by rising office space demand from continuing IT and BPO outsourcing service to Bulgaria, we expect BREF to set on a new track of steady profits as it started investing in new office investment projects where it built up considerable expertise. In 2014, the fund acquired an income generating prime office building in the biggest Business Park in Bulgaria. In 2015, it commenced construction of a new office building adjacent to the former to be operational in the second half of 2016 and is on the lookout for new acquisitions which entail the need for fresh capital.

GOOD CORPORATE GOVERNANCE & FAVORED BY INSTITUTIONAL INVESTORS

BREF is among the best corporate governance and highest free float companies on the Bulgarian stock exchange. It is also one of the most liquid stocks, with negligent debt levels and room for additional capital raise to fund future investments. It is favored by local pension funds and foreign institutional investors.

VALUATION/RISKS

VALUATION: We conservatively value BREF's intrinsic value at EUR 0.46 per share, giving potential upside of 73%. Upside may take some time to materialize but BREF is well positioned to capitalize on current market dynamics with very low level of debt. Accordingly, we initiate coverage with a BUY recommendation but refrain from setting a time horizon.

RISKS: Characteristic of its business nature, market liquidity risk, typical for the sector, remains significant. We expect no considerable economic or political risk.

EUR'000	2012	2013	2014	2015F	2016F
Revenues	2 408	2 055	1 910	2 247	2 289
Net profit	879	862	-1 893	871	615
Total Assets	41 979	39 854	36 680	37 490	43 515
Total Equity	37 006	36 045	34 152	35 022	35 637
Debt	2 721	1 864	960	0	5 000
ROE	2.38%	2.39%	n/a	2.49%	1.73%
EPS (EUR)	0.015	0.014	-0.031	0.014	0.010
DPS (EUR)	0.015	0.012	n/a	0.013	0.009
BVPS (EUR)	0.612	0.596	0.565	0.579	0.590
Dividend yield	5.72%	4.50%	n/a	5.28%	3.58%
P/BV	0.434	0.454	0.489	0.441	0.434
P/NAV	-	-	-	0.57	-

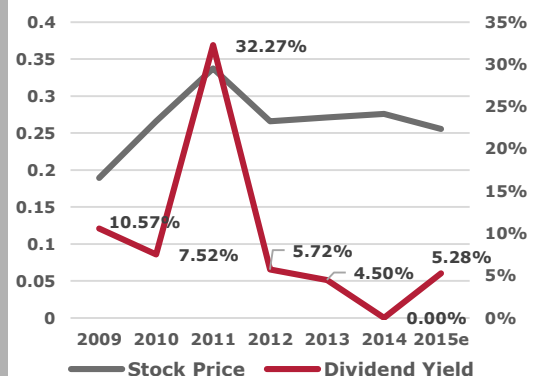
BUY
INTRINSIC VALUE: EUR 0.46
CURRENT PRICE: EUR 0.265

EXCHANGE RATES
EUR/BGN (FIXED): 1.95583
USD/BGN: 1.786

MARKET DATA

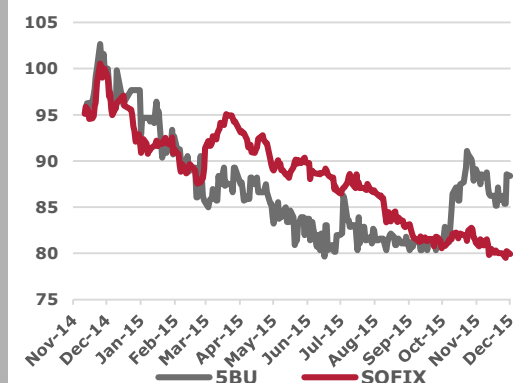
Shares Outstanding:	60.45m
Share Capital:	EUR 30.90m
Free-float:	67%
Market Cap.:	EUR 16.02 m
Avg. Daily Vol.:	EUR 8,700
52 Weeks Range:	EUR 0.23-0.29
BSE Ticker	5BU
Bloomberg Ticker	5BU BU

12% AVERAGE DIVIDEND YIELD FOR THE LAST 5 YEARS, UP TO 2013



Source: Company Data, stock price in eur

... AND MARKET PERFORMANCE



Source: Bloomberg

EXECUTIVE SUMMARY

WE ISSUE A BUY RECOMMENDATION AND VALUE BREF'S INTRINSIC VALUE AT 0.46 PER SHARE.

THE COMPANY

Bulgarian Real Estate Fund REIT (BREF, the Company, and the Fund) is among the pioneers in real estate securitization in Bulgaria. Established in 2004, it quickly raised EUR 36m and built up a diversified portfolio of real estate projects. The principal 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. Its strategy is to acquire, develop, manage and lease properties that have superb potential for cash-flow growth and capital appreciation. As a market player in commercial real estate, BREF is relatively of mid-size, targeting projects within the range of EUR 2-20m.

Business Development & Strategy: BREF has a diversified portfolio of real estate investments in Bulgaria, allocated in retail (25%), office (30%) and holiday properties (10%), as well as investment plots (28%), agricultural land (0.2%) and cash & cash equivalents (7%) as of Sept 30th 2015.

The fund manages nine projects which can be classified into five ongoing projects and four projects in the pipeline, according to the Fund's activities.

We identify 4 key investment projects out of those 9 that drive the company's value and represent upside potential. These are the income generating Mr. Bricolage-Doverie retails DIY centers in the capital city of Sofia and in the city of Varna and Office building 1 in Business Park Sofia, the Kambanite Office Center, which is under construction, and the investment land in the district of Mladost IV in Sofia. The latter 3 are located in or near Business Park Sofia along the South Ring Road of the capital, in the Eastern part of the city that has emerged as highly gravitational for both international and local companies' headquarters as well as a premium residential area. Business Park Sofia is also the biggest business park in the country.

Currently, BREF's management intends to focus on more liquid projects in the office segment of the market where the Company has built up considerable expertise since inception. In 2011, BREF successfully exited from its Kambanite Business Center project to Zeus Capital Partners, a EUR 23m office building developed by the fund and leased to long term tenants like HP and Hyundai. Currently the Company is developing a second office project adjacent to it, called Kambanite Office Center.

Part of the office refocus strategy is also the recent acquisition of Office Building 1 in Business Park Sofia which is situated just across the future Kambanite Office Center on the Sofia South Ring Road. The Fund is also screening for a second potential investment in the office market, which will essentially increase the office share of the portfolio.

Regulatory Framework: The Bulgarian REITs legislation is quite favorable for minority investors. Real Estate Investment Trusts' profits are relieved from corporate taxation, and entities are obliged to distribute at least 90 % of their distributable profit as dividends. Dividends distribution are done according to the distribution matrix set under the REIT law.

Corporate Governance: BREF is among the best corporate governance companies on the Bulgarian stock exchange. It is also one of the most liquid stocks and one of the companies with the biggest free float on the market of 67%. The Company is also a component of the BGREIT index which tracks 7 of the biggest REITs on the market. Board of Directors consists of 3 industry experts whereas the audit committee is voted for a 3-year period.

THE COUNTRY AND THE MARKET

The country is under a Currency board arrangement and the Bulgarian lev is pegged to the Euro at 1.95583. The key advantages of the country are the low corporate taxes as well as the availability of affordable and skilled workforce. Bulgarian economy is set for a GDP growth range of 2.2-2.9% in 2015, and 2.4-3.0% in 2016, according to consensus estimates. Rising wages, new jobs pickup and the low inflation will help lift consumer spending while the higher EU funds absorption rate and continued slide in the oil price drive growth.

In 2014, Bulgaria's real estate market saw the highest level of investment activity for the last five years. The prime office segment in Sofia enjoys solid fundamentals due to strong occupier demand fueled mostly by the IT and BPO sectors. As a result the market is expected to see further yield compression with rates going down to 8 per cent or even below for top quality assets by 2016 compared to around 9% in 2014.

THE VALUATION

We conduct a net asset valuation approach to BREF under normal conditions, ignoring any force majeure of political or economic character but also exclude some suspended projects, considering only 4 key ones. Thus, we arrive at a relatively conservative EUR 0.46 per share intrinsic value or about 73% upside to current market price. Potential catalysts could increase the Fund's value considerably, albeit not included in our valuation methodology. Such catalysts could be general or specific. General catalysts could be of economic, political, market or sectorial nature, whereas specific ones are related to efficient execution of project management, flexibility and negotiation and lobbying undertakings.

SOME RISKS

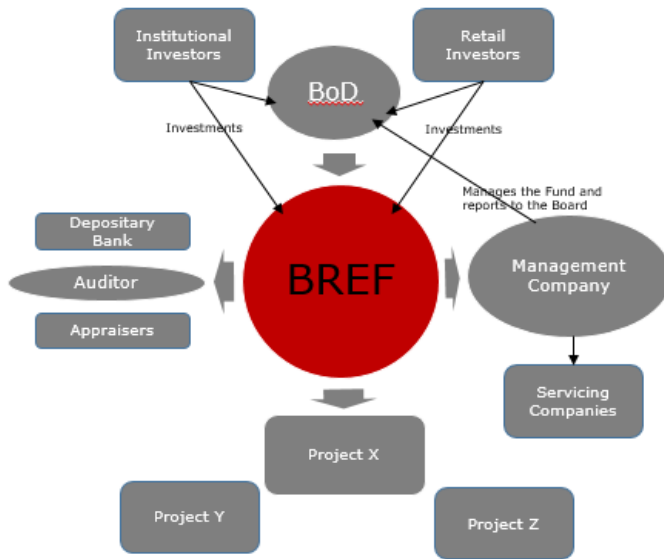
No significant regulatory risk with REIT regulations expected. Due to the nature of the business, market liquidity risk is considerable. Economic risk is also material. Nevertheless, commercial real estate market is showing signs of stabilization with prime office segment to lead the momentum.

COMPANY OVERVIEW

Bulgarian Real Estate Fund (BREF or The Fund) is among the first established Bulgarian REITs, incorporated in October 2004 and licensed to operate since April 2005. The Fund is also among the largest Bulgarian REITs in terms of raised capital, which amounts to EUR 30.9m. BREF specializes in strategic property acquisitions and invests exclusively in high-performing real estates, in all property sectors across Bulgaria.

Leading REIT in Bulgaria

The principal 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. Its strategy is to acquire, develop, manage and lease properties that have superb potential for cash-flow growth and capital appreciation. A management company, called Real Estate Management Ltd, deals with all activities related to the Fund.

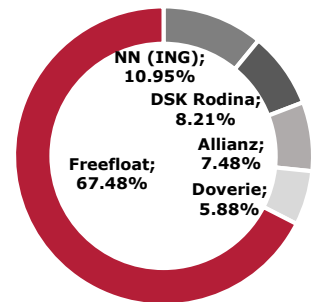


SHAREHOLDERS' STRUCTURE

Registered capital of BREF consists of 60.45 million ordinary shares. They are distributed among roughly 860 local and international institutional and individual investors. *60.45 million ordinary shares*

Only four shareholders exceed a threshold of 5% and these are the pension funds of DSK Rodina, NN (ING), Allianz and Doverie. The other 67.5% are free float.

Shareholders meeting is convened once a year while audit committee is voted for a 3-year period. Board of Directors consists of 3 industry experts.



MANAGING COMPANY

BREF's management is provided by Real Estate Management Ltd. (REM), an entity incorporated for the sole purposes of providing management services to the fund. REM is entitled to manage the Fund's activity and investment program. It is in charge of book-keeping, legal advisory and real estate services. It identifies potential investments and provides recommendations regarding the upkeep, refurbishment or disposal of investments.

1.5% management fee of NAV

Management Fee history, approximated, and expected for 2015, EUR'000

2008	2009	2010	2011	2012	2013	2014	2015F
3 660	800	640	2 030	560	550	540	515

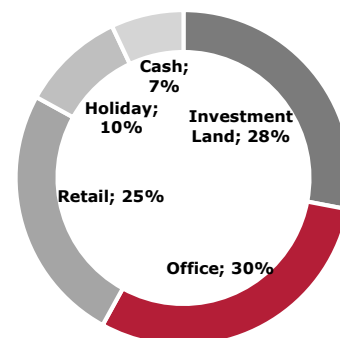
15% success fee

REM is entitled to a 1.5% of NAV management fee and a 15% success fee (on the realized gain between the selling price and the acquisition value plus all subsequent expenses up to the selling event). The Fund's management expects the fees towards REM to stay at the current level in the upcoming quarters, at approximately EUR 130k per quarter.

PORTFOLIO OVERVIEW & STRATEGY HIGHLIGHTS

BREF has a diversified portfolio, allocated in retail (25%), office (30%), holiday properties (10%), investment plots (28%), agricultural land (0.2%) and cash & cash equivalents (7%). The projects managed by BREF are nine. They can be classified into five ongoing projects and four pipeline projects. Of the five ongoing projects, "Mr. Bricolage" – sale and leaseback, Office building 1 in Business Park Sofia and agricultural land are currently operational. Kambanite Office Center is in development phase while the apartment house "Sequoia II" in Borovetz 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.

Of the nine projects in the portfolio, we have identified 4 as driving the fundamental value of BREF. Namely, Doverie-Bricolage retail centers, Business Park Sofia office building 1, Kambanite Office Center and the investment land in Mladost IV. The area around Business Park Sofia – Sofia South Ring Road – Kambanite Business Center has emerged as exceedingly attractive for international players, and 3 of those 4 projects (except for Mr. Bricolage) are located in or near that area. Kambanite Business Center (KBC) represents a successful exit by BREF back in 2011, when the office building was sold for EUR 23 m to Zeus Capital Partners. (NB! Kambanite Business Center and Kambanite Office Center are two separate investment projects).



Essential highlights in regards to portfolio activities among which:

- Finishing the construction of Kambanite Office Center
- Marketing the new office building and looking for potential tenants
- Operational management of Building 1 in Business Park Sofia
- Organizing maintenance works at the Mr. Bricolage outlet in Sofia
- Assessment of investment opportunities on the office and residential markets in Sofia
- Searching for new investment projects of BREF

Fund's management intends to focus on more liquid projects such as the recent acquisition of Office Building 1 in the Business Park. The company is screening for a second potential investment in the office market, which will increase office share in the portfolio. Combined with the currently constructed Kambanite Office Center, office segment comprises 30% of the invested capital. Management will aim at divesting pipeline and suspended projects. This investment strategy will provide higher income from rent and secure stable dividend flow. In the event of buying a second office building office segment could drastically increase portfolio share.

Tilting the investment strategy towards more liquidity and office segment

POTENTIAL CATALYSTS FOR VALUE ENHANCEMENT: GENERAL

- Global geo-political shifts: absence of external shocks, of economic and political character
- Favorable economic conditions to persist in the mid-term: increase of investments, buoyant demand and appreciation of prime office market
- Investment activity within the commercial real estate market to continue growing trend
- BPO & IT companies' demand to further squeeze available office space, driving prime rents higher
- Enhanced presence of international institutional investors on the Bulgarian capital market

POTENTIAL CATALYSTS FOR VALUE ENHANCEMENT: SPECIFIC

- Cashing in on pipeline or suspended projects at good prices in order to free up liquidity for new positive NPV projects
- The ability to efficiently fill up Kambanite Office Center at in the market rates; possibility for pre-lease
- Acquisition of a second office building which will increase income from rent and secure stable dividend flow

Second office building acquisition favored

KEY INVESTMENT PROJECTS
'MR. BRICOLAGE' – SALE AND LEASEBACK

In 2006, BREF concluded two "sale and leaseback" deals with the French DIY chain "Mr. Bricolage". The two stores are situated in the capital city Sofia and the city of Varna. BREF financed 70% of the acquisition cost with a bank loan of EUR 7m from Eurobank Bulgaria. The non-paid principal on the loan as of Sept. 30th 2015 is EUR 1.19m.

Rent agreements are good up until December 2021 and rates HICP indexed for the previous year. It is though expected that in 2016, rental agreements could be adjusted downwards since contracted rates are considerably higher than the current market ones, of EUR 4-4.5 per sq. m.

Bricolage	Varna	Sofia	Total
Plot area m ²	12 184	15 174	27 358
Built-up m ²	5 375	7 610	12 985
Cost EUR	4 m	6 m	10 m
Acquisition	2006	2006	
Indexation	HICP27	HICP27	HICP27
Expiry of rent	2021	2021	2021
Status			operating

OFFICE BUILDING 1 in BUSINESS PARK SOFIA

In 2014, BREF acquired Office Building 1 in Business Park Sofia (BPS) -7,318 sq. m of office area, 68 parking lots in, together with 64.45% of the land, for EUR 7.2m. BPS is the area with highest concentrations of businesses in Bulgaria, located in 14 buildings with a total built-up area of 186,000 sq. m and leasable area of 116,000 sq. m. BPS is situated next to the South Ring Road of Sofia, within a larger area of premium office plots and residential space.

Occupancy rate of Building 1 in the Park is 96.8%. The building meets the new HVAC regulations. In Q3 2015, BREF has renegotiated rental agreements with 60% of the rented area, or 3800 sq. m, of which 2150 sq. m to 2021 and 1650 sq. m to 2019.

Building 1, Business Park Sofia	
Built-up m ²	7 318
Parking lots	68
Cost EUR	7.2 m
Acquisition	2014
Occ. rate	96.80%
Status	operating

KAMBANITE OFFICE CENTER

The company owns a 10.6 dca land plot in the Malinova Dolina - Bunkera Villa Zone area in Sofia. To the south, the area is adjacent to Business Park Sofia and to the biggest realized investment of the Fund – the Kambanite Business Center, sold in 2011 for EUR 23m to Zeus Capital Partners. Thus, the plot offers a good opportunity for a new business purpose building construction. Accordingly, after completing the zoning of the property in 2014, the Fund started construction of a multifunctional building of the highest class, which meets all criteria for green buildings and offers all amenities typical of such buildings. As of the end of Sept. 2015, the construction works are 90% completed. The building is expected to be commissioned by the end of 2016 and cost approximately EUR 7.5m.

According to the approved design, the total built-up area will be 13,486 m², of which the leasable office area will be 10,123 m², the restaurant will have an area of 396 m², and there will be 215 parking lots, 74 of which in underground parking. Currently, the management actively markets the building in efforts to promote and place it well on the office market. It expects 60% occupancy rate at launch sometime in the second half of 2016.

Kambanite Office Center	
Built-up m ²	13,486
Leasable office m ²	10,123
Parking lots	215
Budget EUR	7.5 m
Status	in construction

MLADOST IV INVESTMENT PLOTS IN SOFIA

BREF is also the owner of 5 plots located in the Mladost IV district in Sofia at a key intersection between the South Ring Road and Alexandar Malinov boulevard. They are adjacent to the Business Park Sofia to the west and in diagonal to the Office Building Kambanite currently under construction. This area has emerged as convenient for both office and premium residential property.

Under the new development plans for the area, BREF's plots total 33,102 sq. m out of which 25,288 sq. m zoned for construction and 7,814 sq. m unzoned, intended for green areas. Management contemplates partial sale of the plots while the future development of the remaining properties will be decided upon examination of the opportunities and the best conditions for their utilization.

Mladost IV investment plots	
Total plots m ²	33 102
Cost EUR	10.67 m
Status	suspended

SECTOR OVERVIEW

Bulgaria offers an attractive mix of investment opportunities across all commercial real estate sectors. This is yet to translate into institutional deal-making as investors shift their focus from some of the overcrowded CEE markets and as capital trends out of the Russian and Ukrainian economies in chase of higher returns.

In 2014, Bulgaria's real estate market saw the highest level of investment activity for the last five years. Total volumes amounted to EUR 273m as local developers and corporate occupiers revived the land market, banks were encouraged to off-load non-performing loans and several investors released non-core assets to local players, according to Forton.

The prime office segment in Sofia enjoys solid fundamentals due to the strong occupier demand fueled mostly by the booming IT and BPO sectors. As a result the market is expected to see further yield compression with rates going down to 8% or below for top quality assets by 2016, compared to around 9% in 2014, but still above the 7% rates seen at the previous peak.

Strong office demand fueled mostly by the IT and BPO sectors

Yields to compress to 8% or below for prime office properties

OFFICE SEGMENT

The pre-recession development spree has now brought significant volume of institutional quality stock to the investment market and with yields at competitive levels compared to CEE.

Across the country, Sofia remains the most active leasing market, but other big cities, especially the second largest Plovdiv, increase their shares in the total volume of leases. Office take-up in 2014 amounted to 154,000 sq. m which was the highest within the last six years. Leasing activity continues apace and is expected to record a new rise in 2015.

The outsourcing sector has the most positive impact on the prime market segment, resulting in gradual rental growth and decreasing vacancy rates. It also provides grounds for starting new office projects or restarting those on hold. The existing stock of modern office space in Sofia stands at 1,709,153 sq. m (class A and B). Around 100,000 sq. m are expected to be delivered by the end of 2015 but this is estimated as insufficient to meet the occupier demand for prime space in the medium term.

Most vibrant leasing activity is concentrated in the office zones alongside the South Ring Road and the main boulevards such as Tsarigradsko Shose, Bulgaria, Todor Alexandrov, Nikola Vaptsarov, as well as in the area near The Sofia Airport.

The trend throughout last year, which is expected to continue, indicates some office markets outside Sofia have also become interesting for the tenants. Some BPO and IT companies have already established their second locations in second-tier cities as Plovdiv, Varna, Burgas, Ruse, etc.

The IT and BPO sectors are the main demand drivers alongside the more traditional users from the financial and pharma industries. Moreover, in the field of the outsourcing, Bulgaria is a rising star with a status of the most favorite destination in EMEA according to the Cushman & Wakefield's global BPO & Shared Service Location Index for 2014.

Around 100,000 sq. m of office space under way but insufficient to satisfy demand

Preleases started to dominate

RETAIL SEGMENT

The retail market, in particular in Sofia and other big cities, is relatively saturated. At the beginning of 2015, the total stock of shopping centers for the country is 763,000 sq. m with over one third of this space concentrated in the capital where 10 shopping malls and 3 retail parks are currently operating. For the time being, the only new project planned for delivery in 2015 is Plaza West (GLA 26,050 sq. m) in the west part of Sofia. More recent mall centers, finalized in 2014, are Sofia Ring Mall (GLA 69,000 sq. m) and Mega Mall (GLA 25 250 sq. m).

As new projects come on stream the pressure piles on the existing ones to retain their footfall and turnovers. The competitive environment is likely to put off developers but in the meantime will offer cherry-picking opportunities for institutional investors as dominant centers within certain catchment areas cement their market positions, according to Forton International. The stronger potential now is in restructuring of underperforming shopping centers so that they could find their place on the market again.

Rental levels have stabilized around EUR 20/sq.m for the prime space in the shopping malls since end-2014. Marquee acquisitions include restructuring deals for shopping centers like City Center Sofia, Galleria Plovdiv and Markovo Tepe Mall (in Plovdiv).

Landmark restructuring deals marked by shopping malls

INDUSTRIAL MARKET

The Bulgarian industrial market offers room for new project development, even though this segment still lags behind. The total industrial stock in the region of the capital city of Sofia amounts to 835,000 sq. m but the most part of this space is old, in a poor condition or of small size. On the other hand, the limited availability of modern space combined with the improving economic performance provides an opportunity for new projects in the industrial segment. Evidence of occupier demand for modern space and potential for rental growth sparks the appetite for speculative development.

Sofia and the developing industrial areas around it remain the key target for most investors in logistics space. The area is attractive as the largest consumer market in Bulgaria.

After a slight increase in prime rents in the Sofia region, prime logistics space is traded at EUR 3.75/sq.m and expected to further increase as demand firms up and supply remains low.

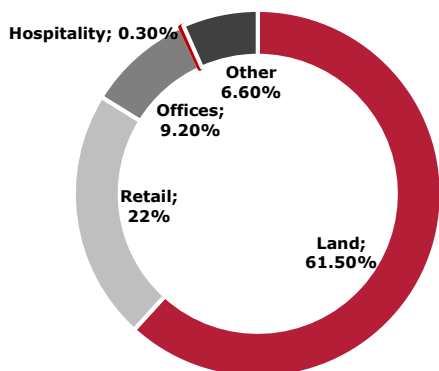
The outsourcing wave in the light industry sectors – sewing, automotive and metal processing, continues and this is a good reason to expect that the interest in purchases of land for industrial developments will continue. Currently, Bulgaria offers over 10,000 ha of pre-developed industrial and logistics land plots in private and state industrial zones, for built-to-suit or built-to-own projects.

Due to its location, predictability, available working force and the easy access to major transport corridors Bulgaria has also the potential to become a light-industrial hub in SEE.

Bulgaria poised to become a light-industrial hub in SEE

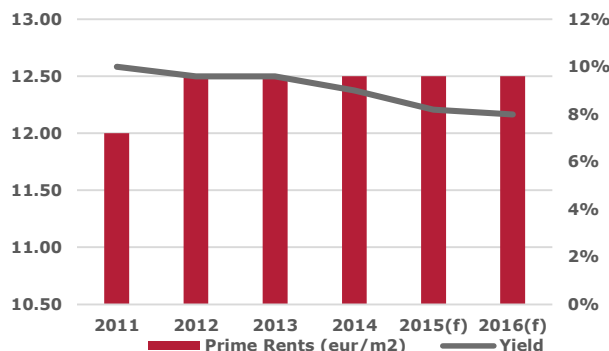
Location, available working force and the ease of access are key

Exhibit 4: Land deals dominated the market in H1'15, totaling EUR 273 m



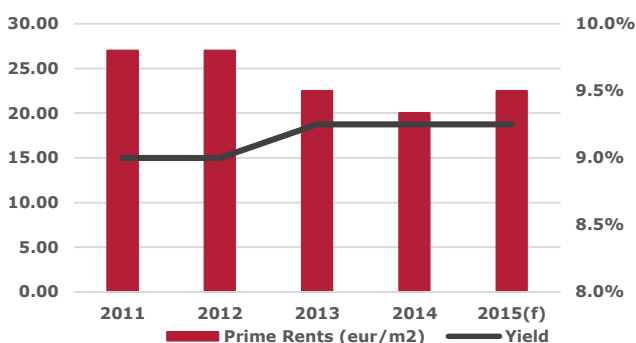
Source: Cushman & Wakefield/Forton

Exhibit 5: Prime office rents to stabilize and yields to decline



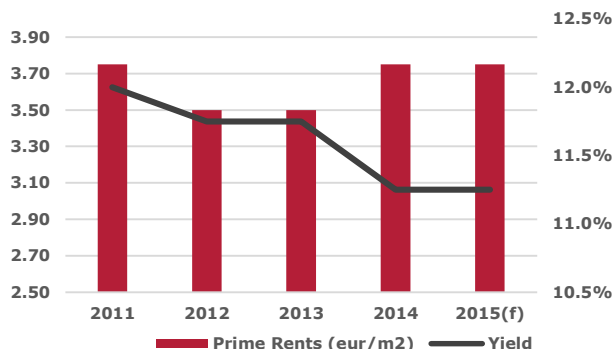
Source: Cushman & Wakefield/Forton

Exhibit 7: Shopping center rents stabilizing at EUR 20/sq.m



Source: Cushman & Wakefield/Forton

Exhibit 8: Industrial market rents to rise and yields to decline



Source: Cushman & Wakefield/Forton

FINANCIAL ANALYSIS AND VALUATION

Having a diversified portfolio of assets with enhanced focus on office space, we assess that the fund is well positioned to capitalize on dynamics within the real estate industry. Fund's focus is skewed towards liquid projects providing regular income and we exclude from the financials any potential sale of its residential, agricultural or investment properties. In case of a sale of any of the above, liquidity and net results will improve.

Diversified asset portfolio

The Fund has returned to investors more than EUR 13.5m in dividends since inception, not counting the expected dividend from 2015 profits. It is part of the local BGREIT index, and is frequently among the most actively traded stocks, offering relatively good liquidity. Yet, stock price performance is subdued to local and regional capital markets sentiments and stock is traded at EUR 0.25, which is 0.44 P/BV. Peak price in 2007 was EUR 1.27 whereas nominal quote is EUR 0.50. That creates an upside potential which could come from the improving economic conditions and the gaining-traction in the real estate market, especially the office segment.

Around EUR 13.5m returned to investors

ANALYSIS OF FINANCIAL PERFORMANCE

The company did not distribute any dividends in 2014 for it posted negative accounting profit due to revaluation losses of one of its properties. On its 2014 annual shareholders' meeting, shareholders decided to partly cover the loss by retained earnings and partly by share premium reserves, hence changing the equity capital structure.

Rental income a major source of revenue

After a major property divestment in 2011, during the last four years the Fund revenues have centered on rental and interest income, representing on average more than 90% of total income. Interest income has declined throughout the last couple of years due to decreasing cash on balance because of investing in new properties a.k.a the 2014 acquisition of Office Building 1 in Business Park Sofia and the 2015 construction initiation of the Kambanite Office Center. It is to further decrease in the coming quarters, thus rental income to remain the only major revenue generator. With its recurring nature, we expect it to remain at current levels for some time, after which it will considerably change with the potential acquisition of a second office building as mentioned by BREF's management and the launching of Kambanite Office Center in 2016. We do not expect any considerable proceeds from

Potential for unlocking value in some of the Fund's assets, not included in the valuation

sale of properties, which could come from the sale of apartments of the Sequoia II complex in the ski resort of Borovets or some of the investment land owned, due to the still anemic environment within the holiday and investment land sectors.

BREF is very well capitalized since it has only EUR 1.19m principal left of its bank loan towards Doverie-Bricolage project, and expected to be fully repaid within 2016.

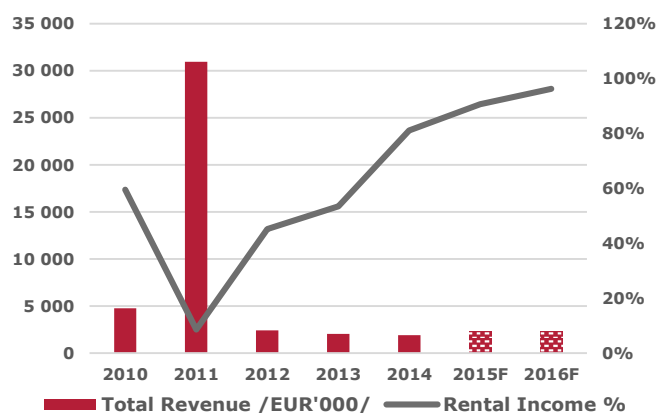
Nevertheless, we expect the capital structure to change as the Fund would need additional funding to complete Kambanite Office Center construction. BREF's management expects to obtain the funding via a bank loan. It is estimated that a loan of EUR 5m will suffice, according to management guidelines. Furthermore, if approved at the shareholders' meeting, the management might do a reverse split in order to raise additional capital for office building acquisitions. Our expectations are for such a move to be welcomed by local pension funds due to excessive cash. We haven't included a capital hike through a split in the projections for 2016 and 2017, but have done so with the bank loan.

Room for capital structure change

Over the last year, liquidity ratios have continuously decreased due to the amounted payables towards the construction works of Kambanite Office Center and diminished cash position after investing in Business Park Office Building 1. Nevertheless, BREF is well capitalized with minimal debt, a current ratio of 2, acid ratio of 1.58 and cash ratio of 1.5.

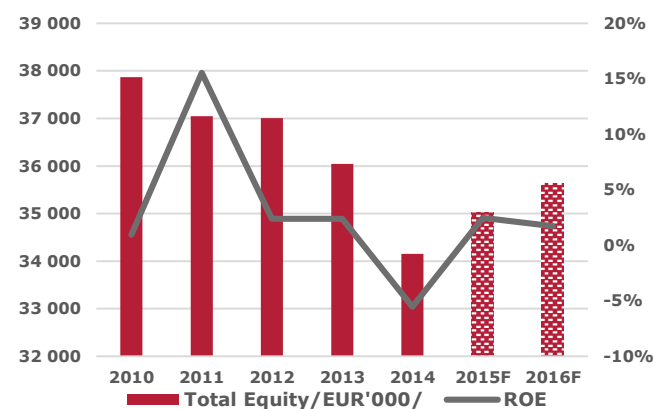
Liquidity squeezed, but still at good levels

Exhibit 13: Rental income centers in as main revenue source



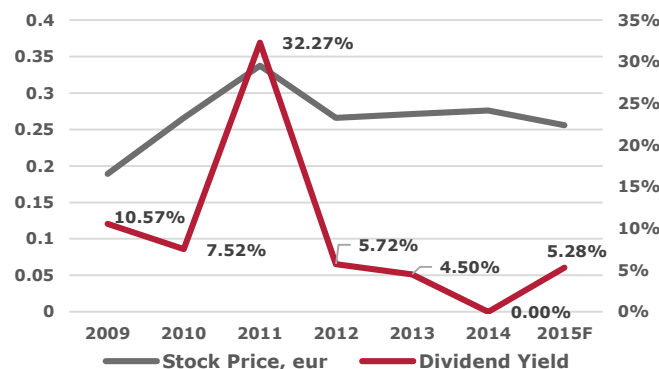
Source: Elana Trading estimates, company data

Exhibit 14: Unsmoothed ROE, after 2014 accounting loss



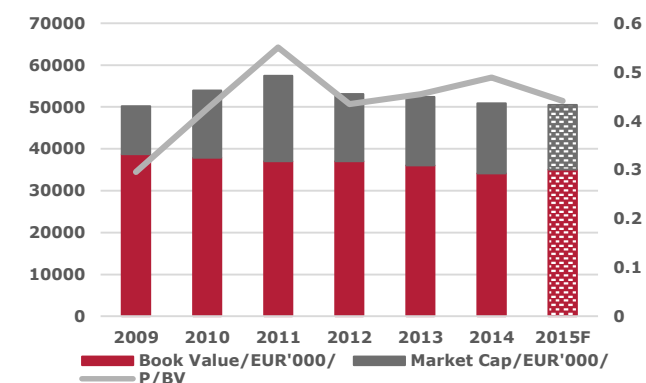
Source: Elana Trading estimates, company data

Exhibit 15: Average dividend yield of 9.41% since 2009, while current estimate is for 5.28%



Source: Elana Trading estimates, company data

Exhibit 16: Price to book consistently under 1 since 2008



Source: Elana Trading estimates, company data

VALUATION OF BREF

To value BREF, we consider only the key investment projects, which are Office Building 1 in Business Park Sofia, Kambanite Office Center, the two Doverie-Bricolage retail centers and the investment land in Mladost IV in Sofia. We take a direct net operating income (NOI) approach, also known as, capitalization rate method, using average rate per sq. m for prime office buildings in Sofia, a conservative EUR 9 per sq. m, and the respective rented area in regards to Kambanite Office Center and Office Building 1 in Business Park Sofia. We take the same approach with the two Doverie-Bricolage retail stores, but with retail rates. Prime rents rates are taken on a net basis, at EUR 6/sq.m after operating expenses concerning the buildings, weighting negotiated levels and current market ones. A conservative yield (capitalization rate) is used to value the properties, which in itself incorporates specific risks

In valuing the Fund, we only consider key investment projects

as well as country risk. For prime offices, yields taken are at 9%, whereas for DIY retail yields taken are at 10%.

Finally, we value the investment land in Mladost IV near Business Park Sofia through an unobservable market input method. We take a selling price per dca of EUR 220, which is in line with auditors' report but yet incorporating the attractiveness of the area and the current market dynamics.

In addition, after not provisioning a dividend in 2014, we expect BREF to distribute dividends of EUR 0.0135 per share in 2015 and EUR 0.009 per share in 2016, based on our expectations and following the regulatory REIT dividend distribution matrix.

In conclusion, we value BREF at EUR 0.46 per share provided the absence of major economic downturn or political crisis.

NAV Valuation /EUR/	Leasable area/sq. m/	Rate/EUR per sq. m/	Months	Occupancy	NOI	Yield	Market Value	Calculation Method
"Mr. Bricolage" - sale and leaseback	12 985	6	12	100%	934 920	10%	9 349 200	direct capitalization rate
Business Park Sofia - Office Building 1	7 318	9	12	90%	711 310	9%	7 903 440	direct capitalization rate
Kambanite Office Building	10 141	9	12	80%	876 182	9%	9 735 360	direct capitalization rate
Mladost IV Investment Lands in Sofia	25 200	220	-	-	-	-	5 544 000	market unobserved inputs
Short Term Assets							3 724 000	
Total Assets							36 256 000	
Less Total Liabilities							8 283 400	New EUR 5m loan counted
NAV Total							27 972 600	
NAV/share							0.46	
Current Price							0.26	Upside potential
P/NAV							0.57	73%

DIVIDEND PROJECTIONS

EUR'000	2013	2014	2015F	2016F	2017F
Net Income	862	-1 893	871	615	1 343
Plus/Minus net revaluation loss/gains	-39	2 369	0	0	0
Minus profit from sales based on BV	0	-13	-35	0	0
Plus profit from sales based on historic cost	0	0	0	0	0
Distributable Profit	823	489	906	615	1 343
90% Dividend Payout	741	440	815	553	1 209
Gross DPS, eur	0.0123	0	0.0135	0.0092	0.0200
Dividends paid	737	0	n/a	n/a	n/a
DPS, eur	0.0122	0	0.0135	0.0092	0.0200
Actual Dividend Payout%	90%	0%	90%	90%	90%

RECOMMENDATION AND PRICE TARGET

Several factors contribute to BREF being an attractive investment opportunity. Its minimal leverage, good liquidity, diversified portfolio and good amount of dividend returns in symbiosis with mid to long-term market dynamics all make its stock an attractive investment. The stock is currently underpriced, trading at P/NAV of 0.57 according to our estimations.

In regards to dividends, which were not distributed in 2014 because of negative accounting profit due to portfolio revaluations, we expect that the Fund will distribute approximately EUR 0.0135 DPS in 2015 and EUR 0.009 DPS in 2016, using regulatory guidelines for 90% of distributable profit.

Finally, we issue a Buy recommendation for BREF and value its stock at EUR 0.46, with an upside of 73% under normal market conditions. Provided the lack of any political storm or a significant economic downturn, we believe that realization of the above potential could be easily unlocked and further value enhancement be derived in the presence of one or more of the following catalysts:

- Early signs of real estate market recovery to solidify in a stable growth and increased activity in the coming years
- Foreign institutional investors to return to the market

*Recommendation: **BUY***

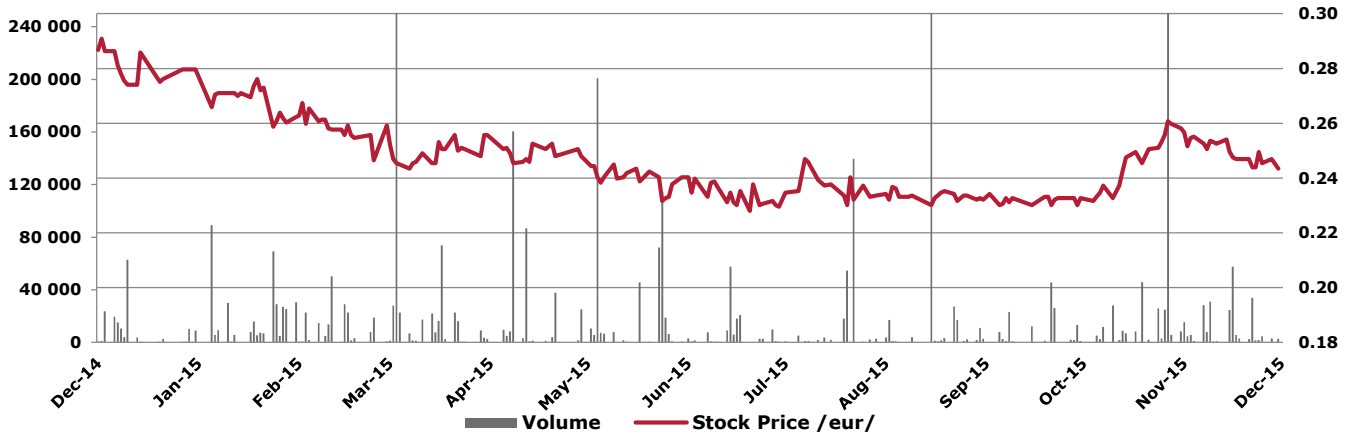
Intrinsic Value: EUR 0.46

*Upside potential: **73%***

- Sentiment among individual Bulgarian investors to improve and that in effect to increase capital markets activity
- Continued process of nearshoring on a global scale, for which Bulgaria emerges as one of the most attractive destinations

Given the current macro environment, BREF is well poised to capitalize on market dynamics within its area of expertise and investment focus.

STOCK PRICE DYNAMICS



Source: Bloomberg

FINANCIAL DATA (AUDITED) & ELANA FORECAST

INCOME STATEMENT / EUR'000/	2011	2012	2013	Q3'14	2014	Q3'15	TTM	2015F	2016F	2017F
Total Revenue	30 957	2 408	2 055	1 349	1 909	1 723	2 283	2 247	2 289	3 026
Proceeds from sale of properties	28 001	0	0	41	41	132	132	132	0	0
Rental income	2 647	1 090	1 100	1 053	1 549	1 528	2 024	2 039	2 205	2 942
interest income	242	1 071	742	188	191	6	9	7	4	4
Gain on derivative financial instrument	9	52	126	61	82	48	69	60	80	80
Net gains from FV adjustments			39		0	0	0	0	0	0
Other income	58	195	48	6	46	9	49	9	0	0
Total Expenses	25 199	1 529	1 193	1 096	3 804	1 081	3 789	1 376	1 674	1 683
Value of assets sold	20 287	0	0	54	54	167	167	167	0	0
Operating Expenses	2 958	815	913	823	1 089	449	715	599	618	643
Interest expense	566	234	182	103	141	65	103	79	536	520
Net loss from FV adjustments	868	144	0	0	2 369	0	2 369	0	0	0
Other expenses & FX differences + loss from derivatives	520	336	98	116	151	400	435	531	520	520
Net Profit	5 758	879	862	253	-1 895	642	-1 506	871	615	1 343
Shares outstanding	60 450	60 450	60 450	60 450	60 450	60 450	60 450	60 450	60 450	60 450
EPS	0.095	0.015	0.014	0.004	-0.031	0.011	-0.025	0.014	0.010	0.022

BALANCE SHEET / EUR'000/	2011	2012	2013	Q3'14	2014	Q3'15	TTM	2015F	2016F	2017F
ASSETS										
Current Assets	23 902	16 604	14 435	6 092	5 115	3 809	3 809	3 724	4 950	4 055
Investment property held for sale	1 373	1 223	1 210	1 181	827	806	806	806	806	806
Trade & other receivables	1 355	525	147	270	47	34	34	34	74	34
Cash & cash equivalents	21 169	14 851	13 073	3 685	4 229	2 856	2 856	2 671	4 055	3 200
Other current assets				946		102	102	202	0	0
Deferred expenses	5	5	5	10	12	11	11	11	15	15
Non-current Assets	25 337	25 375	25 419	32 855	31 565	33 452	33 452	34 581	39 118	39 508
Investment property	25 337	25 375	25 419	32 757	31 203	33 091	33 091	34 220	38 757	39 147
Cost for acquisition of fixed assets				97		2 110	2 110	3 239	7 776	8 166
Plant & equipment	9	3	2	1	1	0	0	0	0	0
Intangible assets	0	0	0	0	2	1	1	1	1	1
Restricted cash					360	360	360	360	360	360
Total Assets	49 239	41 979	39 854	38 947	36 680	37 261	37 261	38 305	44 068	43 563
EQUITY AND LIABILITIES										
Current Liabilities	8 320	1 962	1 781	1 264	1 204	1 905	1 905	2 980	3 128	2 289
Current part of non-current liabilities	782	823	867	902	915	952	952	965	1 575	580
Provisions for dividends due	6 581	920	740	0	0	0	0	815	553	1 209
Trade and other current payables	957	219	174	362	289	953	953	1 200	1 000	500
Non-current Liabilities	3 872	3 011	2 028	1 291	1 324	563	563	303	5 303	4 303
Interest bearing loans	3 530	2 721	1 864	1 189	960	246	246	0	5 000	4 000
Derivative financial instrument	342	290	164	102	81	34	34	20	20	20
Other long-term liability				0	283	283	283	283	283	283
Total Liabilities	12 192	4 973	3 809	2 555	2 528	2 468	2 468	3 283	8 431	6 592
Share Capital	30 907	30 907	30 907	30 907	30 907	30 907	30 907	30 907	30 907	30 907
Share premium	5 016	5 016	5 016	5 016	5 016	3 244	3 244	3 244	3 244	3 244
Retained earnings	1 124	1 083	122	470	-1 771	642	642	871	1 486	2 829
Total Equity	37 047	37 006	36 045	36 393	34 152	34 793	34 793	35 022	35 637	36 980
Total Equity and Liabilities	49 239	41 979	39 854	38 948	36 680	37 261	37 261	38 305	44 068	43 571
Net Assets	37 047	37 006	36 045	36 392	34 152	34 793	34 793	35 022	35 637	36 971

FINANCIAL PERFORMANCE	2011	2012	2013	Q3'14	2014	Q3'15	TTM	2015F	2016F	2017F
Valuation										
BVPS	0.613	0.612	0.596	0.602	0.565	0.576	0.576	0.579	0.590	0.612
P/B	0.551	0.434	0.454	0.476	0.489	0.400	0.400	0.441	0.434	0.418
Profitability										
EPS	0.095	0.015	0.014	0.004	-0.031	0.011	-0.025	0.014	0.010	0.022
Net Income Margin	18.6%	36.5%	41.9%	18.8%	n/a	37.3%	-66.0%	38.8%	26.9%	44.4%
ROE	15.54%	2.38%	2.39%	0.70%	n/a	1.85%	-4.33%	2.49%	1.73%	3.63%
ROA	11.69%	2.09%	2.16%	0.65%	n/a	1.72%	-4.04%	2.27%	1.40%	3.08%
Dividend										
DPS	0.109	0.015	0.012	0	0	0	0	0.013	0.009	0.020
Dividend Yield	32.27%	5.72%	4.50%	0%	0%	0%	0%	5.28%	3.58%	7.82%
Liquidity										
Current Ratio	2.87	8.46	8.10	4.82	4.25	2.00	2.00	1.25	1.58	1.77
Stock Price, EUR	0.337	0.266	0.271	0.286	0.276	0.230	0.230	0.256	0.256	0.256
Market Capitalisation' 000 EUR	20 397	16 071	16 380	17 308	16 689	13 907	13 907	15 452	15 452	15 452

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SELL	Target price is more than 10% below the current quotes

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