

# **“Bulgarian Real Estate Fund”**

## **First Quarter Summary Report**



28 April 2017

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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 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. To achieve the set targets, BREF implemented a strategy to acquire, develop, manage and lease properties that have superb potential for cash-flow growth and capital appreciation. With these objectives BREF constructed a portfolio of 9 active projects spread across all property sectors in Bulgaria, thus creating a well-diversified and low-risk portfolio.

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

Stock Exchange	Ticker Symbol	Market Capitalization (31.03.2017)	Shares Outstanding
<b>Bulgarian Stock Exchange Sofia</b>	<b>5BU (BREF)</b>	<b>EUR 22,696,477</b>	<b>20 150 000</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.

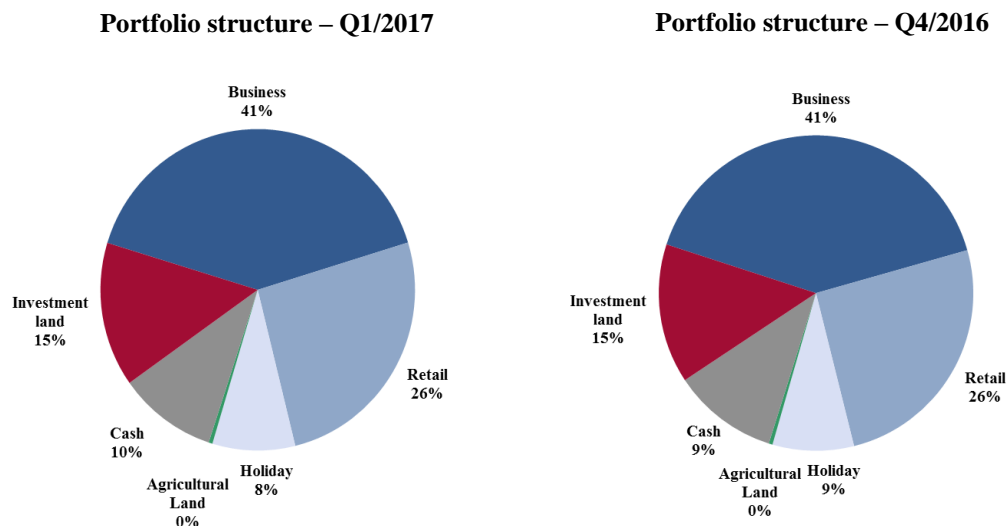
### 2.1 Portfolio structure

In the first quarter of 2017, the portfolio structure remained the same with the only change being an increase in the share of cash at the expense of the value of the vacation properties. This change mainly results from the accumulated cash from rental income and the second advance payment received under the preliminary sale agreement. At the end of the reporting period, the business properties kept the leading position with a share of 41%. The commercial properties were second with a share of 26% and the investment properties - third with 15%. During the next quarter, the amount of cash and respectively its share are expected to grow. The key highlights during the past quarter were as follows:

- Operational management of the Kambanite Office Building and organizing the finishing works of the building and the surrounding area;
- Active marketing of the Kambanite Office Building and fit-out of the restaurant space according to the tenant's requirements;
- Operational management of Building 1 in Business Park Sofia;
- Operational management of the properties leased to Mr.Bricolage;
- Preparation and participation in tendering procedures;
- Assessment of new investment opportunities on the office and residential markets in Sofia;
- Searching for new investment projects of BREF.

The projects managed by BREF as of the end of March 2017 were nine, diversified in different sectors of the real estate market in Bulgaria.

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



In the first quarter of 2017, the Company's activity was mainly directed towards managing six projects. The table below presents the projects segmented based on their degree of completion.

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

Project	Stage of the project	Historical value	Balance sheet value 31.03.2017	Future investments
<b>Current projects</b>				
"Mr. Bricolage" - sale and leaseback	operational management	10,378	11,383	
Agricultural land	operational management	58	174	
Apartment house "Sequoia 2" - Borovetz	for sale	1,664	760	
Office building 1 - Business Park Sofia	operational management	7,410	7,891	51
Kambanite Office Building	operational management	8,636	9,904	220
Investment plots in Sofia - Mladost IV*	for sale	4,635	3,368	
<b>Pipeline projects</b>				
Seaside Holiday Village	suspended	2,254	2,973	0
Investment plots near Veliko Tarnovo*	suspended	192	622	n.a
Investment plots near Vidin*	suspended	301	631	n.a
Investment plots in Sofia - Mladost IV*	suspended	4,817	1,770	n.a
<b>Total</b>		<b>40,346</b>	<b>39,476</b>	<b>271</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, Agricultural land, and Kambanite office building are currently operational. Apartment house “Sequoia 2” in Borovets and part of the Investment plots in Sofia-Mladost IV are set for sale. The next group consists of projects in the pipeline or suspended and there is no progress on their development. Such projects are Seaside Holiday Village in Lozenetz, Investments plots near Veliko Tarnovo and Vidin, and those located 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.).

At the end of 2016 the loan used for financing of the project was fully repaid and currently the cash resources from rental income are at the full disposal of the Company.

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.

In the first quarter, the tenant has regularly paid the amounts due under the lease agreements. In order to maintain the functionality of the property, renovations of certain installations are to be implemented in 2017.

## 2.3 Project – Agricultural Land

The total agricultural land owned by BREF as of the end of the first half of the year is 404 dka. The rented out lands are 207.1 dka or 51% from the total land. The average annual rental price is approximately EUR 24.5 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-March 2017 the total number of apartments sold is ten. The selling campaign for the remaining 26 residential units is running.

**Project parameters:**

Apartment house "Sequoia 2" - Borovetz	
Plot area	512 sq.m
Total built-up area	3,527 sq.m
Apartments left for sale	26
Current Investment	EUR 1.66 M

## 2.5 Project – Office building 1 – Business Park Sofia

In 2014 BREF acquired 7,318 square meters of office space and 68 parking spaces in Building 1 at 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 company’s properties have a 100% occupancy rate and a total purchase price of EUR 7.2 million.

In the end of the prior year, the lease agreement with Bulpros Consulting AD was extended. Under the new terms, the lease agreement cannot be terminated before March 2020 and the agreed rental price is higher than the current one.

During the quarter, the Company started preparations for the lobby renovation project. It is expected that the renovation will be completed later this year. The Company has also scheduled a replacement of the roof waterproofing later this year.

**Project parameters:**

Building 1 - Buisness Park Sofia	
Built-up area - offices	7,318 sq.m
Parking lots	68
Acquisition price	EUR 7.4 M
Occupancy rate	100%

## 2.6 Project – Office Building Kambanite

The development of the company’s new office building was completed in 2016. The property is situated on a plot of land with an area of 10,671 square meters located at the Malinova Dolina - Bunkera Villa Zone area, Sofia. The commercial name of the building is Kambanite Green Offices. The building has a total built-up area of 13,498 sq.m., of which the leasable office area and related premises occupy 9,583 sq.m. and the restaurant has an area of 425 sq.m. There are 215 parking spaces, of which 74 are in the underground parking.

By the end of March 2017, the property occupancy rate was 72.42%. The main tenants are Adecco Bulgaria EOOD and Konica Minolta with leased area of 6,216 square meters and 606 square meters, respectively. The tenant of the restaurant area is Victoria G 2011 EOOD. At the end of the reporting period, all the premises and parking spaces of the first two tenants were delivered. The restaurant fit-out works according to the tenant requirements are in progress. It can be expected that the restaurant will begin operation in the next quarter. Negotiations are being held with other potential tenants who have demonstrated an interest in the new building.

During the first quarter, some of the finishing works on the building have continued. The park area around the building is under active works. The recovery of the road pavement damaged during the construction works and the interior design of the lobby were also completed. The lobby project is expected to be realized in the next quarter. In accordance with the construction agreements, the Company has retained construction guarantees, which are to be paid out in 2017-2018, as evidenced by the corresponding agreements.

In 2016, the Company secured a bank loan for financing the construction project amounting to BGN 11 million with Eurobank Bulgaria AD. By the end of March 2017, the Company had utilized funds amounting to BGN 10 million. The loan terms are described in article 3.3 below.

The tender for selection of a facility manager of the new building was held during the last year. The winner is FIRST FACILITY BULGARIA EOOD. During the quarter, the company was engaged to organize the commissioning of the building and to plan its maintenance.

**Project parameters:**

<b>Office Building Kambanite</b>	
Built-up area	13,498 sq.m
Leasable office area	9,583 sq.m.
Parking lots	215
Investment	EUR 8.64 M
Status	completed
Occupancy rate	72.4%

## **2.7 Project – Seaside Holiday Village**

The project envisages the construction of Seaside Holiday Village on the Bulgarian shore. The project will be a gated community, which will consist of residential, retail and entertainment areas. The land plot size is 28 dka and according to the design it will include 291 apartments, two swimming-pools, two restaurants, and a retail and entertainment center.

As a result of the economic crisis, the current market conditions in the holiday resort sector and the large supply of properties on the Bulgarian Seacoast, BREF suspended the project.

**Project parameters:**

<b>Seaside Holiday Village</b>	
Plot area	28,758 sq.m
Project built-up area	17,963 sq.m
Current Investment	EUR 2.3 M

## **2.8 Project – Investment land plots near Veliko Turnovo**

In 2006 the Company purchased properties with a total area of 203,249 sq.m. located on the main Sofia - Varna road, at a distance of 5 km from the town of Veliko Turnovo. The properties constitute agricultural land and are still not zoned. In 2015 the Company accomplished a transaction for the sale of part of the properties with an area of 24,445 square meters and in May 2016 second transaction for the sale of another 30,250 square meters was executed. The value of the second transaction is BGN 250 thousand. After the two sales the remaining

properties owned by BREF have a total area of 148,554 square meters. 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	148,554 sq.m
Purchase price	EUR 192 000
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

Currently, the Company owns 15 properties located on the Sofia ring road, at its intersection with Alexandar Malinov Boulevard, in the westward direction, opposite Business Park Sofia. After the disposal of one of the properties in 2016, the Company remained the owner of a total land area of 29,489 s.qm, of which 21,516 s.qm. are rezoned. The rest remain unregulated and intended for green areas. The construction parameters of the rezoned plots are: coefficient of intensity of 3.5 and construction density of 60%.

In December 2016, the Company executed two new preliminary agreements for the sale of two of the regulated plots of land at Mladost IV with an area of 13,471 sq.m, and an acquisition value of EUR 4,635 thousand. The agreed selling price was EUR 250 per sq.m. and the sale transactions are to be completed by the end of November 2017. During the last quarter, the buyer made one more advance payment and thus the funds paid in advance amount to EUR 1,3 million. After the sale completion, the Company will remain the owner of 16,018 sq.m of which 8,045 sq.m are rezoned, and the rest are unzoned, intended for green areas.

Currently, the activity of the Company regarding the project is suspended. The future development of the 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	29,489 sq.m
Purchase price	EUR 9.45 M
Status	suspended



## 3 Financial Highlights Q1/ 2017

### 3.1 Summarized Financial Statements

The following financial statements are based on non-audited financial statements of BREF for the first quarter of 2017.

**Table 3 – Balance sheet as of 31<sup>th</sup> March 2017 and 31<sup>st</sup> December 2016.**

(All amounts in EUR '000)	31.03.2017	31.12.2016
<b>ASSETS</b>		
<b>Non-current Assets</b>		
Investment property	35,348	35,261
Cost for acquisition of fixed assets	2	-
Plant and equipment	2	2
<b>Total Non-current Assets</b>	<b>35,352</b>	<b>35,263</b>
<b>Current Assets</b>		
Investment property held for sale	4,128	4,128
Trade receivable	75	58
Cash and cash equivalents	4,443	3,903
Other current assets	19	13
Deferred expenses	13	11
<b>Total Current Assets</b>	<b>8,678</b>	<b>8,113</b>
<b>TOTAL ASSETS</b>	<b>44,030</b>	<b>43,376</b>
<b>EQUITY AND LIABILITIES</b>		
<b>Equity</b>		
Share capital	30,908	30,908
Share premium	3,244	3,244
Retained earnings	2,013	1,592
<b>Total equity</b>	<b>36,165</b>	<b>35,743</b>
<b>Non-current liabilities</b>		
Interest bearing loan	4,421	4,559
Other long-term liability	6	79
<b>Total Non-current liabilities</b>	<b>4,427</b>	<b>4,638</b>
<b>Current liabilities</b>		
Current part of non-current liabilities	680	540
VAT payable	60	108
Payables to management company	389	653
Payables to the personnel and SIC	1	4
Provisions for dividends due	760	760
Advance payments	1,300	782
Trade and Other current liabilities	248	149
<b>Total Current liabilities</b>	<b>3,438</b>	<b>2,995</b>
<b>Total liabilities</b>	<b>7,865</b>	<b>7,633</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>44,030</b>	<b>43,376</b>

**Table 4 – P&L statement for the first quarter of 2017 and for the last quarter of 2016**

(All amounts in EUR '000)	Q1 - 2017	Q4 - 2016
Income from sale of assets	-	-
Rental income	772	567
Revenue from interest and other financial revenues	1	1
Other financial income	-	2
Other Income	7	1,331
<b>Total Revenue</b>	<b>779</b>	<b>1,901</b>
Value of sold assets	-	-
Interest expense	(41)	(37)
Management fees	(133)	(134)
Materials expense	(3)	(3)
BOD and employees salaries expense	(19)	(29)
Other expenses	(160)	(149)
<b>Total expenses</b>	<b>(357)</b>	<b>(351)</b>
<b>Profit/(loss) for the period</b>	<b>422</b>	<b>1,550</b>
<b>Adjusted weighted average number of shares in the period (in thousands)</b>	<b>20,150</b>	<b>20,150</b>
<b>Earnings per share - basic and diluted</b>	<b>0.021</b>	<b>0.077</b>

### 3.2 Liquidity

**Table 5 – Liquidity ratios as of 31<sup>th</sup> March 2017 and 31<sup>st</sup> December 2016**

Liquidity Ratios	31.03.2017	31.12.2016
Current ratio	2.52	2.71
Quick ratio	1.32	1.33
Cash ratio	1.29	1.30

During the past quarter, the liquidity ratios recorded a slight decrease resulting from the higher relative increase of the current liabilities. The main reason for this increase is the advance received under the preliminary agreements for the sale of two properties at Mladost IV in Sofia. The current ratio remained above 2, and as of the period-end it accounted for 2.52. The quick ratio and the cash ratio recorded slight changes and reached 1.32 and 1.29, respectively. In the next reporting period, it can be expected that the liquidity ratios will improve due to the accumulated cash from rents and the newly utilized funds under the loan agreement.

#### ■ Internal Sources of Liquidity

Over the period, the internal sources of liquidity demonstrated an increase, with particularly large increase in the Current assets item. These changes occurred as a result of the higher amount of cash in the assets section and the advance payment received under the executed preliminary agreements for the sale of the properties in the liabilities section.

- **Short-term (current) assets**

**Table 5A** – Current assets as of 31<sup>th</sup> March 2017 and 31<sup>st</sup> December 2016

Liquidity sources	31.03.2017	%	31.12.2016	%
<b>Current Assets</b>				
Investment property held for sale	4,128	47.57%	4,128	50.88%
Other financial assets	0	0.00%	0	0.00%
Trade receivable	75	0.86%	58	0.72%
Cash and cash equivalents	4,443	51.20%	3,903	48.11%
Other current assets	19	0.22%	13	0.16%
Deferred expenses	13	0.15%	11	0.13%
<b>Total Current Assets</b>	<b>8,678</b>	<b>100%</b>	<b>8,113</b>	<b>100%</b>

In the first quarter of 2017, the main change in the current assets item was observed in the cash position. As a result, the total value of the current assets increased by 6.96% and reached EUR 8,678 thousand at the period end. This change also led to a change in the structure of the current assets, with cash taking up the largest share of 51.20%. The main reason for this increase, as mentioned earlier, are the advance payments received under the preliminary sale agreements for plots of land at Mladost IV in Sofia and the additional cash proceeds from rents of the new office building. During the next reporting period, the cash accumulation is expected to continue and significant expenses may occur with the finishing works of the Kambanite office building.

Investment properties item comes second with a share of 47.57%. Included in this item are the book value of the residential building Sequoia 2 in Borovets and the value of the properties at Mladost 4 in Sofia, for which preliminary sale agreements were signed. During the next reporting periods, until the completion of the sale transactions of the land plots the investment properties value is expected to be maintained.

The Trade Receivables and Interests item was next with 0.86%. The positive change during this period resulted from advanced payments for electricity and gas to their corresponding suppliers for the new office building Kambanite. Other receivables under this item consist primarily of receivables from tenants and accrued interests on deposits. The receivables are not expected to demonstrate substantial changes over the next quarter.

The total value of the assets during the next reporting periods will be mainly influenced by the earned rental income, the cash proceeds from the sale of properties and the expenses for the finishing works of the Kambanite office building.

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

**Table 5B** – Current liabilities as of 31<sup>th</sup> March 2017 and 31<sup>st</sup> December 2016

Liquidity sources	31.03.2017	%	31.12.2016	%
<b>Current liabilities</b>				
Current part of non-current liabilities	680	19.76%	540	18.03%
VAT payable	60	1.74%	108	3.60%
Payables to management company	389	11.32%	653	21.80%
Payables to the personnel and SIC	1	0.03%	4	0.12%
Provisions for dividends due	760	22.11%	760	25.38%
Advance payments	1,300	37.81%	782	26.10%
Trade and Other current liabilities	248	7.23%	149	4.97%
<b>Total Current Liabilities</b>	<b>3,438</b>	<b>100%</b>	<b>2,995</b>	<b>100%</b>

During the last quarter, the total value of the current liabilities increased by 14.80%, reaching EUR 3,438 thousand at period-end. This was caused mainly by the higher current portion of non-current liability under the loan principal and the change in the amount of funds received by the Company as advances. A change was also observed in the structure of the liabilities – the share of the liabilities to the management company significantly decreased and the share of the

advances increased. The latter in turn remained the largest current liability with a share of 37.81%. Included in this item are the advance payments received from tenants and from the preliminary property sale agreements for two plots of land at Mladost IV in Sofia. Under the agreements, the outright sales will be completed by the end of November 2017 for both plots, and thus these advances will be recognized as income and the sale proceeds will be transferred to the income statement of the Company.

Ranked at the second place, with a share of 22.11% of the current liabilities were the Provisions for dividends due for 2016, which amounted to EUR 760 thousand. The calculated amount represents 90% of the transformed financial result, determined in accordance with art.10 of the Special Purpose Vehicles Act. The final amount for distribution as dividend for 2016 will be determined at the regular General Meeting of the Shareholders on 29<sup>th</sup> of May 2017 when the financial results for 2016 are to be approved.

The next item with a share of 19.76% consists of the loan repayments to be made over the next twelve months. The recorded increase resulted from the higher amount of payable principal on the investment loan, according to the repayment schedule. Following an update of the repayment schedule in the next quarter, this amount is expected to be adjusted according to the funds actually utilized.

The payables to the management company, an intermediary for the construction of the new building, were fourth with a share of 11.32%, a decrease from prior period. The greatest share of the payables in this item was associated with the construction of the new project and consisted of retained funds payable to the construction companies, which serve as performance guarantees. The observed significant decrease during the quarter resulted from repaid current liabilities under the construction contracts and repaid liabilities for management fee, which were pending from the prior reporting periods.

The value of trade and other liabilities have increased, and their share in the current liabilities item amounts to 7.23%. The underlying cause of the increase are the retained guarantees in connection with the construction of the new building, which were transferred from non-current to current liabilities. The most notable from the other entries to this item are the received guarantees and advances under the new rental agreements, with their value expected to be maintained over the next reporting periods.

In the next quarter, any significant changes in the current assets item are not expected. Some changes may occur particularly in the Trade liabilities and the liabilities associated with the construction of the new office building.

### ■ External Sources of Liquidity

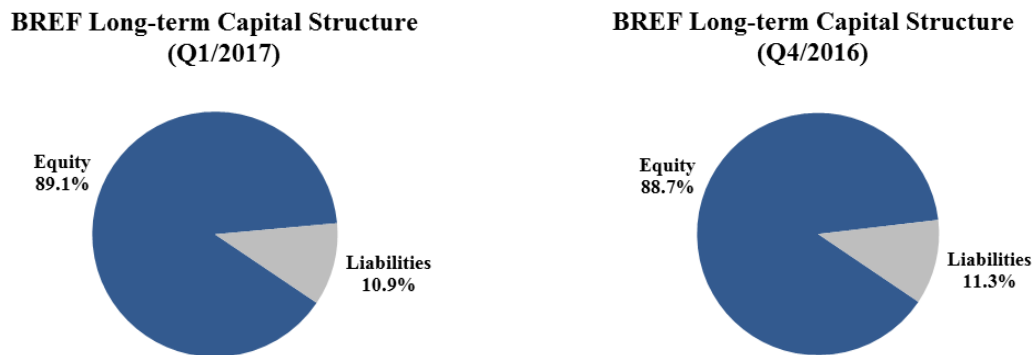
The external sources of liquidity are the equity and the investment loans, as described in detail in section 3.3. Capital resources.

For the purpose of its ongoing projects, the Company has the financial resources that are sufficient to secure its operations over the next few months. With regard to the allocation of the available funds for development of projects, the Company will focus its activity mainly on the operational management of the new building, the renovations and reconstructions of the other properties and the identification of the investment opportunities.

## 3.3 Capital resources

At the end of March 2017, the long-term capital of the Company, both equity and borrowed, recorded an increase of 0.70% to EUR 40,586 thousand. The change was driven by the prior period financial results. During the quarter, the structure of the long-term capital has changed – the share of borrowed funds recorded a decrease from 11.3% in the end of 2016 to its current level of 10.9%. Over the next reporting periods, with the achievement of new financial results and the ongoing repayment of the loan principal, it is expected that the shareholder's equity will continue to grow. The distribution between the equity and the borrowed funds is presented in the figure below.

**Figure 2: Allocation between equity and external financing**



**Table 6 –Leverage ratios**

Leverage ratios	31.03.2017	31.12.2016
Debt-to-Equity	0.22	0.21
Non-Current Assets-to-Equity ratio	0.98	0.99
Long-term-Debt-to-Non-Current-Asset ratio	0.13	0.13

\*The current part of non-current liabilities and other liabilities are excluded from the calculation of the above ratios.

## ■ Equity

At the end of March 2017 the equity of the Company was EUR 36,165 thousand, which represents an increase of 1.18% when compared to the prior period. The recorded increase is wholly due to the earned profit for the period.

**Table 7 – Total equity as of 31<sup>th</sup> March 2017 and 31<sup>st</sup> December 2016.**

Equity (in thousands)	31.03.2017	31.12.2016
Share capital	30,908	30,908
Share premium	3,244	3,244
Retained earnings	2,013	1,592
<b>Total equity</b>	<b>36,165</b>	<b>35,743</b>

## ■ External financing

From 2017 the Company has only one bank loan agreement concluded with Eurobank Bulgaria AD. The term of the loan is 10 years and its amount is BGN 11 million. The purpose of the loan is to finance the construction of the new office building of the Company situated at the Ring Road near Kambanite. The interest due on the loan is based on 3-month Sofibor + 3.1%. The grace period for the principal expired in the end of 2016 and so its repayment started from 2017. The utilisation of the funds was accomplished in tranches according to the construction costs incurred and the total loan amount utilised by the end of the reporting period was BGN 10 million.

After the end of the reporting period, the Company had fully utilized the loan amount and a new repayment schedule was agreed, which is in force since April 2017.

## ■ Capital expenses during the next periods under review

The investment plan of the Company during 2017 will be mainly focused on the completion of the finishing construction works of the new office building Kambanite in Sofia. Capital expenditures will be also allocated for Building 1 in Business Park Sofia for the replacement of the entire roof waterproofing and renovation of the lobby.

Currently, the Company is actively seeking for new investment projects and should such opportunities are available, the Company will allocate funds for their implementation.

### 3.4 Asset structure

The value of the Company assets by the end of the first quarter increased by 1.51% to EUR 44,030 thousand compared to the prior period when the assets value amounted to EUR 43,376 thousand. The recorded increase was mainly a result of the accumulated additional cash from rents and the advances received under the executed preliminary agreements for the sale of the properties at Mladost 4 district in Sofia. Over the next reporting period, with the generation of additional rental income and the utilization of new funds from the loan, the growth of the Company assets is expected to continue.

*Table 6 – Asset structure*

Asset structure (thousand EUR)	31.03.2017	% share	31.12.2016	% share
<b>Non-current assets incl.</b>	<b>35,352</b>	<b>80.3%</b>	<b>35,263</b>	<b>81.3%</b>
- total property	35,348	80.3%	35,261	81.3%
- cost for acquisition of fixed assets	2	0.0%	0	0.0%
<b>Current assets incl.</b>	<b>8,678</b>	<b>19.7%</b>	<b>8,113</b>	<b>18.7%</b>
- trade receivable	75	0.2%	58	0.1%
- investment property held for sale	4,128	9.4%	4,128	9.5%
- cash and cash equivalents	4,443	10.1%	3,903	9.0%
<b>Total assets</b>	<b>44,030</b>	<b>100%</b>	<b>43,376</b>	<b>100%</b>

The registered change in the asset structure over the last quarter resulted from the higher amount of cash. This in turn increases the value of the current assets item, reaching 19.71% by the end of the reporting period. This trend is expected to continue in the next reporting period and the change will be observed both in the total assets value and in the internal structure of the current assets, following the completion of the sale transaction of the two plots of land in Mladost IV and the associated growth of cash.

### 3.5 Financial Results

The operation of the Company during the first quarter of 2017 was mainly focused on the management of projects currently generating revenues for the Company, and some of the finishing works of the new office building Kambanite.

#### ■ Revenue from operations

During the reviewed quarter, the main change in the revenue of the Company consisted of higher rental income and the absence of property revaluations, which are reviewed on a yearly basis at each financial year-end. As result of these changes, the total revenue amounted to EUR 779 thousand, which was a decrease by 59.04% compared to the prior quarter.

*Table 9 – Realized revenues for the first quarter of 2017 and for the last quarter of 2016.*

Revenue (in thousand EUR)	Q1 - 2017	Q4 - 2016
Income from sale of assets	-	-
Rental income	772	567
Revenue from interest and other financial revenues	1	1
Other financial income	-	2
Other Income	7	1,331
<b>Total revenue</b>	<b>779</b>	<b>1,901</b>

During the first quarter, the greatest share of the revenue was from rental income with as much as 99.08%. The rental income amounted to EUR 772 thousand, which was an increase of 36.19% compared to the prior period. The recorded growth is entirely due to earned rental income from the new office building Kambanite. Beginning in 2017, except for the restaurant, all other rented areas were handed over to their respective tenants and are currently generating

income for the Company. According to the rental agreements currently in place, the expected income from the new building in 2017 is EUR 917 thousand. Over the next reporting period, with the conclusion of new rental agreements the rental income may increase further. Also included in this item is the rental income from the Mr.Bricolage stores in Sofia and Varna, and from Building 1 in Business Park Sofia. In the next quarter, the rental income is expected to rise slightly with the handover of the restaurant to its tenant.

From the other items, the largest change was in the Other income - the significant reduction, as already mentioned above, resulted from the absence of revaluation of properties, which are reviewed at each financial year-end.

In the next quarter, the total revenue is expected to be maintained. An improvement in the revenue is expected with the handover of the restaurant to its tenant.

## ■ Expenses from operations

During the first quarter of 2017, the total expenses of the Company increased by 1.60%, and amounted to EUR 357 thousand, mainly as a result of the higher costs related to the utilized by the Company investment loan and the higher maintenance costs for the new office building, which are reflected in the Other expenses item.

*Table 10 – Realized expenses for the first quarter of 2017 and for the last quarter of 2016.*

Expenses (in thousand EUR)	Q1 - 2017	Q4 - 2016
Value of sold assets	-	-
Interest expense	(41)	(37)
Management fees	(133)	(134)
Materials expense	(3)	-
BOD and employees salaries expense	(19)	(29)
Other expenses	(160)	(149)
<b>Total expenses</b>	<b>(357)</b>	<b>(348)</b>

In the first quarter of 2017, the greatest share of 44.84% belongs to the item Other Expenses. The increase in this item relates mainly to the additional costs incurred for the operational management and maintenance of the Company's new office building. This item will continue to increase until the full completion of the scheduled property maintenance. Also, an increase in the expenses for property-related taxes for the new building also incurred. The largest share of the remaining expenses recorded in this item was taken up by the property taxes. Other significant expenses included in this item are the external property management services, bank charges, and other administrative expenses.

The fee of the management company item was ranked second, accounting for 37.39% of the expenses. This item remained at the same level as of the prior quarter, which is expected as a trend in the future reporting periods.

The interest expenses were next, amounting to 11.60%, including paid and accrued interest on the loan of the Company. This account recorded an increase, which resulted from the higher principal amount of the new investment loan. Over the next reporting period, the interest expenses are expected to grow and then to gradually decrease with the repayment of the outstanding principal.

The main factors which will lead to a change in the expenses amount over the next reporting period are the generated additional expenses for property management, maintenance for the office building Kambanite and the higher interest costs.

## ■ Financial result

In the first quarter of 2017, the Company earned a profit of EUR 422 thousand. The main contributor to this result was the reduction in the income from revaluations at the end of the

prior year, which is absent in the current period. The financial result for future periods is expected to improve due to the higher rental income from the new office building. Following any dispositions of properties, further changes in the financial results may arise.

**Table 11 – Financial result for the first quarter of 2017 and for the fourth quarter of 2016.**

Financial Result	Q1 - 2017	Q4 - 2016
Revenues	779	1,901
Expenses	(357)	(351)
<b>Net profit/loss for the period</b>	<b>422</b>	<b>1,550</b>

The accounting profit divided by the adjusted average number of shares during the quarter gives the earning per share (EPS) of EUR 0.021.

Results per share (EUR '000)	2017 **	2016	2015	2014
Earnings	422	2,147	1,027	-1,893
Earnings per share (EPS)	0.021	0.107	0.051	(0.094)
Net asset value (NAV)	36,165	35,743	34,357	34,152
Adjusted common shares outstanding	20,150	20,150	20,150	20,150
NAV per share	1.795	1.774	1.705	1.695
Dividend per share	0.0377	0.0377	0.0408	0.0000
Share fair value*	1.833	1.812	1.746	1.695

\* Share fair value = NAV per share + Dividend per share

\*\* Net asset value for 2017 is per non-audited financial statements, while for 2014-2016 according to audited financial statements

According to the non-audited financial statements of the Company, the Net Asset Value per share (NAV) increases from EUR 1.774 as of the end of 2016 to EUR 1.795 per share as of the end of March 2017, mainly due to the earned profit from the prior 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 Company is subject to such a risk, bearing in mind the investment properties in its property portfolio. Despite that the owned properties are well diversified in different segments and regions in Bulgaria and therefore they offer favorable conditions for good return in the future.

### **Interest rate risk**

As of the end of March 2017, considering the investment bank loan of the Fund, it is exposed to interest rate risk regarding possible changes in the interest rate levels. The Fund is constantly monitoring the changes in the level of SOFIBOR and if needed is ready to renegotiate the financing parameters.

### **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 and cash flow risk***

The company is exposed to liquidity risk with regard to paying off its current liabilities. At current, due to the secured additional bank financing the Fund has enough available funds to finance its operative and investment activity. For the purpose of implementation of its investment plan, the Company will rely on both own financial funds and external financing.

***Credit risk***

The credit risk, or the risk arising from the opportunity that the Fund does not receive the financial assets in the agreed amount, is minimized by reaching financial relationships with various contractors with a high credit score. In order to secure its receivables under the operative lease agreements, the Company requires from the tenants to provide a deposit or a bank guarantee. In addition, the receivables under the operating leasing are subject to continuous monitoring, as a result of which the exposure of the Company to non-collected receivables is minimized. The major credits risk to which the Company is exposed, related to the other financial assets (other than trade receivables), arises as a result of the deposits opened with the bank institutions.

***Construction risk***

After receiving the permission for use of the new Office Building Kambanite in Sofia the exposure to the construction risk has diminished and an influence on the activities of the Fund is not expected until the start of new development project.

The Company will be exposed to the above-mentioned risks and uncertainties in the next financial year.

**■ *Ecological standards, followed by BREF***

In order to minimize the environmental impact of its projects, in the course of design and construction of its last office building the Company complies with the requirements of the American standard for green buildings LEED. The expectations of the Company are that the Kambanite Office Building will be issued the LEED Gold Certificate, which indicates significant reduction of water, electricity and gas consumption of the building.

## 4 Share performance

In the first quarter of 2017, the shares of BREF recorded decrease of 2.82%. However, the investors accounted for the good prospects for the development of company and the share price recorded a growth of 29.74% on a yearly basis.

Following a solid performance during 2016, the decrease in the share price of BREF during the reporting period is corresponding to the performance of the REIT sector – the BGREIT index, which reflects the performance of the sector, has increased by only 0.44%. Nevertheless, the companies investing in real estate continue to attract attention from the investors, and their shares remain one of the most-traded on Bulgarian Stock Exchange-Sofia.

Overall, the capital market demonstrated strong performance in the first quarter of 2017. The main index SOFIX increased by 8.11% for the period January-March, reaching the level of 633.99 points as of the end of the period. The broad index BGBX40 reached the level of 124.90 points as of 31th March, rising by 12.22%. The positive development has led to significant increase in the investment activity, as the turnover of the regulated market rose by 52.5% on a yearly basis and reached EUR 43.90 million.

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

Summarized trading details for the period – 1<sup>st</sup> April 2016 – 31<sup>th</sup> March 2017:

- Opening Price – BGN 1.699 (1 April 2016)
- Closing Price – BGN 2.203 (31 March 2017)
- Highest Price – BGN 2.280 (9 December 2016)
- Lowest Price – BGN 1.699 (4 April 2016)
- Total Trading Volume – 2,881,650 shares
- Turnover for the period – BGN 5,948,857 (EUR 3,041,602)
- Weighted average price – BGN 2.064
- Market Capitalization (31.03.2017) – BGN 44,390,450 (EUR 22,696,477)

**BREF Share Price Performance  
(01.04.2016 - 31.03.2017)**

