

“Bulgarian Real Estate Fund”

Summary Annual Report 2017



6 April 2018

Contents

| | | |
|----------|---|-----------|
| 1 | <i>Overview of the Fund</i> | 3 |
| 2 | <i>Portfolio</i> | 4 |
| 3 | <i>Financial Highlights 2017</i> | 10 |
| 4 | <i>Events after the reporting date</i> | 19 |
| 5 | <i>Share performance</i> | 20 |

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 10 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 (31.12.2017) | Shares Outstanding |
|---|-------------------|---------------------------------------|--------------------|
| Bulgarian Stock Exchange Sofia | 5BU (BREF) | EUR 22,912,830 | 20,150,000 |

2 Portfolio

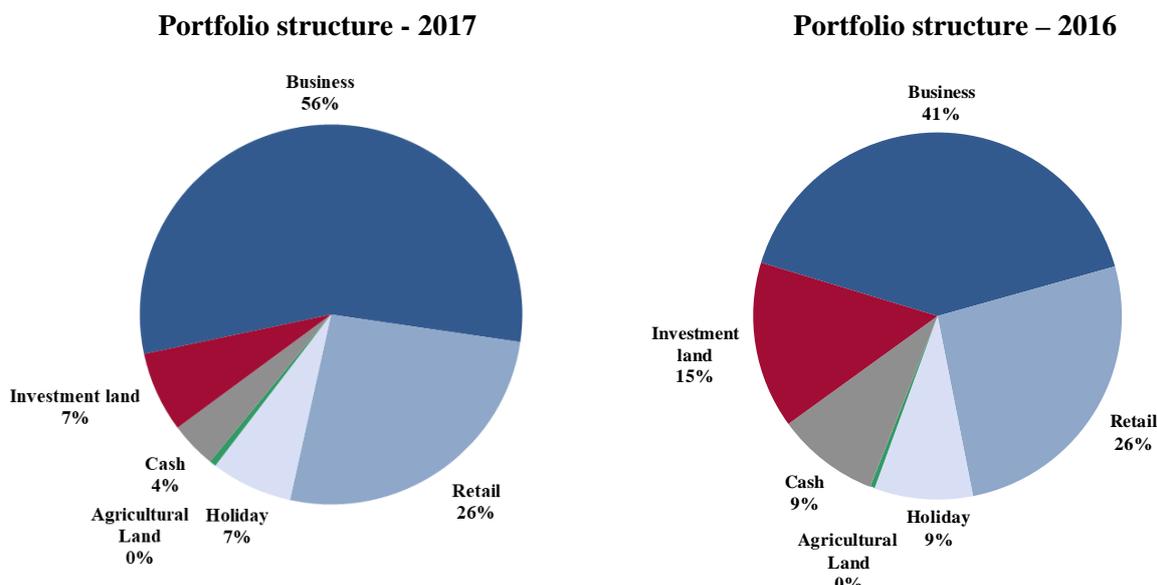
BREF has engaged in numerous projects ranging in size, activity and geographical location. Our diversified portfolio may provide some protection from the ups and downs of individual properties such as occupancy rates, defaults on rents, and downturns in industry sectors or local markets.

2.1 Portfolio structure

In 2017 the total value of the portfolio of BREF grew, and the main factor contributing to that was the realized rental income during the period. Also, during the year there was a significant change in the structure of the Company's portfolio. The main events to that effect were the purchase of the construction right to build of an office building in Sofia Tech Park and the final sale of some of the properties in Mladost 4 in the capital. As a result of these actions, at the end of 2017, the share of business properties grew considerably, while the share of investment properties and cash and cash equivalents decreased. At the end of the year, with an increasing share of 56% of the portfolio, business property took the leading position. The second position, with 26%, were the retail areas, while the investment properties registered a significant decrease and reached only 7%, the main factor for which are the realized sales of properties in Mladost 4, Sofia. Expectations for the next year with the launch of the new project and the envisaged new investments in it are for the share of the business property to continue to grow at the expense of cash and cash equivalents. Changes in the value of the portfolio and its structure may also occur upon successful completion of a campaign for increase of the capital of Fund. During the year, the company's activities were mainly focused in the following areas:

- Acquisition of the construction right in Zone 2 of the development plan of Sofia Tech Park;
- Design of the new office building in Sofia Tech Park and organization of the project implementation;
- Operational management of the Kambanite Office Building and performing finishing work on the building, the restaurant and the surrounding area;
- Search for tenants for the free office space in the Kambanite Office Building and allocation of additional areas for Adecco and Konica Minolta;
- Operational management of Building 1 in Business Park Sofia and renegotiation of expiring in 2018 rental contracts;
- Operational management of the properties leased to Mr. Bricolage and renovation of the installations in the store in Sofia;
- Completion of the transaction and signing of final contracts for the sale of two properties in Mladost 4 in Sofia;
- Sale of a garage in Apartment House Sequoia 2 – Borovetz;
- Assessment of new investment opportunities on the market of office and residential properties;
- Searching for new investment projects of BREF.

The projects managed by BREF as of the end of December 2017 were ten, diversified in different 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 six out of the ten 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 | Historical value | Balance sheet value 31.12.2017 | Future investments |
|---|------------------------|------------------|--------------------------------|--------------------|
| Current projects | | | | |
| "Mr. Bricolage" - sale and leaseback | operational management | 10,391 | 11,593 | - |
| Agricultural land | operational management | 58 | 249 | - |
| Apartment house "Sequoia 2" - Borovetz | for sale | 1,693 | 782 | - |
| Office building 1 - Business Park Sofia | operational management | 7,416 | 8,643 | 51 |
| Kambanite Office Building | operational management | 8,904 | 11,033 | 26 |
| Office building Sofia Tech Park | in construction | 5,142 | 5,008 | n.a |
| Pipeline projects | | | | |
| Seaside Holiday Village | suspended | 2,254 | 2,278 | - |
| Investment plots near Veliko Tarnovo* | suspended | 192 | 624 | n.a |
| Investment plots near Vidin* | suspended | 301 | 631 | n.a |
| Investment plots in Sofia - Mladost IV* | suspended | 4,817 | 1,773 | n.a |
| Total | | 41,169 | 42,612 | 77 |

* 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, Kambanite Office Building and Agricultural land are currently operational. Apartment house "Sequoia 2" is set for sale and the Office building in Sofia Tech Park is under construction. The next group consists of projects in the pipeline or suspended and currently there is no progress in their development. Such projects are Seaside Holiday Village in Lozenetz, Investments plots near Veliko Tarnovo and Vidin, and in Sofia in Mladost IV district.

2.2 Project – "Mr. Bricolage" – sale and leaseback

The start of the project is in 2006. The investment is a "sale and leaseback" type, which subject are the two stores of the French "Do-It-Yourself" chain "Mr. Bricolage", 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 proceeds 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.

The rental agreements were regularly serviced in 2017. After the updating in 2018 the contemplated annual net rental income from both sites will be EUR 1,101 thousand.

During this year there were made replacements of some of the systems of the property in Sofia in order to maintain its functionality. During the next year replacement was planned of the roof insulation along with renovation of some installations in the same property.

2.3 Project – Agricultural Land

The total agricultural land owned by BREF as of the end of the 2017 is 404 dka. The rented out lands are 191.1 dka or 47% from the total land. The average annual rental price is approximately EUR 25.56 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 year one garage was sold and as of the end of December 2017 a total of ten apartments and one garage had been disposed of. 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 | 26 |
| Current Investment | EUR 1.69 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 price of EUR 7.2 million.

During the past year, the Company re-signed the lease agreement with Atos IT Solutions and services EOOD for a new five-year term at new higher prices, compliant in line with the new rent levels on the market. The total leased area is 2,349,49 sq.m. and 12 parking spaces in the underground parking lot. The new rental will take effect from February 2018.

During 2017 was prepared lobby renovation project. Offers are currently being collected. In addition, a new access system will be installed which will lead to better security in the offices. The next year plans are to a replacement of the roof waterproofing of the entire building.

Project parameters:

| Building 1 - Business Park Sofia | |
|----------------------------------|------------|
| Built-up area - offices | 7,318 sq.m |
| Parking lots | 68 |
| Investment | 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 sq.m. 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 13,205 sq.m., of which the leasable office area and related premises occupy 9,356 sq.m. and the restaurant has an area of 420 sq.m. There are 214 parking spaces, of which 74 are in the underground parking area.

By the end of December 2017, the property occupancy rate was 80.25%. The two main tenants are Adecco Bulgaria EOOD and Konica Minolta with leased area of 6,902.31 sq. m. and 661.89 sq. m. respectively. The total number of leased parking spaces is 125, of which 46 are in the underground parking area. The tenant of the restaurant area is Victoria G 2011 EOOD. Negotiations are being held with other potential tenants who have demonstrated an interest in the new building.

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 December 2017, the outstanding principal amounts to BGN 10.17 million. The terms of the loan are described in article 3.3 below.

During the past year, some of the property finishing works continued. The park environment around the building and the interior design of the building's foyer were completed. Under the construction contracts, the Company has retained guarantee amounts, which are due to be paid in 2018.

Project parameters:

| Office Building Kambanite | |
|------------------------------------|-------------|
| Built-up area | 13,205 sq.m |
| Leasable office area | 9,356 sq.m. |
| Parking lots | 214 |
| Total cost (land and construction) | EUR 8.9 M |
| Occupancy rate | 80.25% |

2.7 Project – Office building Sofia Tech Park

In 2017 after winning the tender organized by Sofia Tech Park AD, Bulgarian Real Estate Fund REIT has acquired the construction right in Zone 2 of the development plan of the Sofia Tech Park.

Under the agreement, the total purchase price for the construction right acquisition is BGN 9,652,000 (EUR 4,934,989), which amount has been fully paid by the Company. According to the final agreement, BREF acquired the right to build a multifunctional administrative-service building with a built area of 4,395 sq.m., total built-up area of up to 35,000 sqm over the ground and an underground parking on two levels with a total built-up area of up to 16,000 sq.m. The area on which the granted construction right will be realized is 8,140 sq.m. Under the provisions of the agreement, the Company is obliged to complete the building construction within 5 years from the date of the acquisition of the construction right. Another requirement in the contract is that no less than 30% of the office space should be used by companies that have research and development activities in the specified focal areas of the park and meet the definition of a high-tech company or a medium-tech company according to the statistical information of EUROSTAT.

After the acquisition of the construction right, the Company also signed a design contract with A & A Architects OOD for the development of the new building project. The efforts of the Company during the first half of 2018 will be focused mainly on the development of the conceptual design and the preparation of the future realization of the investment.

According to the preliminary estimates of the Company, the expected value of the new building's construction is about EUR 35 million. The financing of the new project will be realized with a capital increase and on the second stage - with borrowed funds.

2.8 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 |
| Current Investment | EUR 2.3 M |

2.9 Project – Investment land plots near Veliko Turnovo

In 2006 the Company acquired properties with a total area of 203,249 sq.m. located on the main Sofia - Varna road, at a distance of 5 km from the town of Veliko Tarnovo. The properties constitute agricultural land and are still not zoned. In 2015 the Company accomplished a transaction for the sale of part of the properties with an area of 24,445 sq. m. and in May 2016 second transaction for the sale of another 30,250 sq. m. 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 sq.m. Meanwhile the Fund temporarily has rented out the properties as agricultural land.

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

Project parameters:

| Investment Plots near Veliko Turnovo | |
|---|--------------|
| Total plots' area | 148,554 sq.m |
| Purchase price | EUR 0.19 M |
| Status | suspended |

2.10 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 |

2.11 Project – Investment plots in Sofia – Mladost IV

In the beginning of 2017, BREF was the owner of 15 properties, situated along Sofia's Ring Road in the intersection point of Alexander Malinov Boulevard, in a westerly direction, opposite to Business Park Sofia. After the signing of preliminary agreements during December, 2016, in the end of the year the Company finalized two more deals for the sale of two of the regulated properties in Mladost IV with total area of 13,471 sq. m., with cost price of EUR 4,635 thousands. The contracted sales price amounted to 250 EUR/sq. m. or the total sum received as a result of the properties' sale was EUR 3,367 thousands. After execution of the sales in the end of 2017, the Company remains the owner of 16,018 sq. m., of which 8,045 sq. m. in regulation, and the remaining area outside of regulation, designated for green spaces.

Project parameters:

| Investment Plots, Sofia - Mladost IV district | |
|--|-------------|
| Total plots' area | 16,018 sq.m |
| Purchase price | EUR 4.8 M |
| Status | suspended |

3 Financial Highlights 2017

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 2017 and 2016.

Table 3 – Balance sheet as of 31st December 2017 and 31st December 2016.

| (All amounts in EUR '000) | 31.12.2017 | 31.12.2016 |
|---|---------------|---------------|
| ASSETS | | |
| Non-current Assets | | |
| Investment property | 41,830 | 35,261 |
| Equipment | 5 | 2 |
| Intangible assets | 3 | - |
| Total Non-current Assets | 41,838 | 35,263 |
| Current Assets | | |
| Investment property held for sale | 782 | 4,128 |
| Trade and other receivables | 83 | 72 |
| Cash and cash equivalents | 1,744 | 3,903 |
| Deferred expenses | 10 | 11 |
| Total Current Assets | 2,619 | 8,114 |
| TOTAL ASSETS | 44,457 | 43,377 |
| EQUITY AND LIABILITIES | | |
| Equity | | |
| Share capital | 30,907 | 30,907 |
| Share premium | 3,245 | 3,245 |
| Retained earnings/(accumulated losses) | 3,983 | 1,592 |
| Total equity | 38,135 | 35,744 |
| Non-current liabilities | | |
| Interest bearing loans | 4,608 | 4,559 |
| Other long-term liability | - | 79 |
| Total Non-current liabilities | 4,608 | 4,638 |
| Current liabilities | | |
| Current portion of long-term interest bearing loans | 583 | 540 |
| Provisions for dividends due | 351 | 760 |
| Trade and other payables | 780 | 1,695 |
| Total Current liabilities | 1,714 | 2,995 |
| Total liabilities | 6,322 | 7,633 |
| TOTAL EQUITY AND LIABILITIES | 44,457 | 43,377 |

Table 4 – P&L statement for 2017 and 2016

| (All amounts in EUR '000) | 2017 | 2016 |
|--|----------------|----------------|
| Rental and service charge income | 3,158 | 2,141 |
| Income from sale of investment property | 3,375 | 1,061 |
| Interest income | 1 | 4 |
| Gain on derivative financial instrument | 0 | 23 |
| Net gains from fair value adjustments | 1,079 | 1,259 |
| Other Income | 58 | 89 |
| Total Revenue | 7,670 | 4,577 |
| Value of sold property | (3,374) | (1,159) |
| Interest expense | (180) | (104) |
| Management fees | (551) | (523) |
| Direct operating expenses arising from properties | (672) | (494) |
| BOD remunerations | (59) | (56) |
| Employee benefit costs | (29) | (29) |
| Other expenses | (64) | (65) |
| Total expenses | (4,930) | (2,430) |
| Profit/(loss) for the period | 2,740 | 2,146 |
| Adjusted weighted average number of shares in the year (in thousands) | 20,150 | 20,150 |
| Earnings per share - basic and diluted | 0.136 | 0.107 |

3.2 Liquidity

Table 5 – Liquidity ratios as of 31st December 2017 and 31st December 2016

| Liquidity Ratios | 31.12.2017 | 31.12.2016 |
|------------------|------------|------------|
| Current ratio | 1.53 | 2.71 |
| Quick ratio | 1.07 | 1.33 |
| Cash ratio | 1.02 | 1.30 |

In the past year, the liquidity ratios registered a decrease, mainly due to the reflected payment of the final contract for the acquisition of the construction right in Sofia Tech Park and the finalization of the transaction for the sale of two of the properties in Mladost IV-Sofia. The overall effect of these actions is a reduction in liquidity but still remains above one. The current liquidity ratio falls below 2 and reaches 1.53, and quick and cash liquidity ratios drop to 1.07 and 1.02 respectively.

In the next reporting period, the costs for the implementation of the new investment project in Sofia Tech Park are forthcoming, but also higher rental income is expected, the net effect of which is expected to reduce the Company's liquidity.

Additional factors that will affect the ratios are the expected accrual of higher dividend provisions for 2018 and upon a successful capital increase accumulation of a larger cash resource.

■ Internal Sources of Liquidity

In 2017 the internal sources of liquidity marked a significant decrease, as it was higher for short-term assets. The basis of these changes is the sale of real estate in Mladost 4 in Sofia and the cash decrease due to the purchase of the new property.

○ **Short-term (current) assets**

Table 5A – Current assets as of 31st December 2017 and 31st December 2016.

| Liquidity sources | 31.12.2017 | % | 31.12.2016 | % |
|-----------------------------------|--------------|-------------|--------------|-------------|
| Current Assets | | | | |
| Investment property held for sale | 782 | 29.85% | 4,128 | 50.88% |
| Trade and other receivables | 83 | 3.18% | 72 | 0.88% |
| Cash and cash equivalents | 1,744 | 66.58% | 3,903 | 48.11% |
| Deferred expenses | 10 | 0.39% | 11 | 0.13% |
| Total Current Assets | 2,619 | 100% | 8,114 | 100% |

In 2017 the main changes in the current assets are in the value of investment property and cash. As a result of these amendments, the total amount of the current assets of the BREF decreased by 3 times and at the end of the period, it reached 2,619 thousand. The overall structure of current assets is retained, with cash taking up the largest share of 66.58%. The main reason for their decrease, as mentioned above, is the payment on the transaction for the purchase of the construction right in Sofia Tech Park. In the next reporting period, the construction costs of the new building will be continued and, accordingly, the reduction of the cash, as a change may occur upon successful implementation of the Fund's capital increase.

Second, with a share of 29.85%, remained the investment properties, whose value after the sale of the properties in Mladost 4 in Sofia dropped considerably. In the article remained only the part of the residential building "Sequoia 2". Borovets. In the next reporting period, unless there are new sales of properties, the article is expected to retain its value.

Trade and other receivables and interest, for their part, recorded an increase compared to the previous year, with current receivables from tenants, advances paid to suppliers, deposits and accrued interest thereon. The marked increase is mainly due to accrued current receivables from tenants in Kambanite office building, which were paid in the month following the month of accrual. The accumulated sums are the result of the new tenant relationships in the building that started in 2017. During next year no significant changes to this article are expected.

The total amount of current assets in the next reporting period will mainly depend on the funds spent on the construction of the new building and the increase in the Fund's capital.

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

Table 5B – Current liabilities as of 31st December 2017 and 31st December 2016.

| Liquidity sources | 31.12.2017 | % | 31.12.2016 | % |
|---|--------------|-------------|--------------|-------------|
| Current liabilities | | | | |
| Current portion of long-term interest bearing loans | 583 | 34.00% | 540 | 18.03% |
| Provisions for dividends due | 351 | 20.49% | 760 | 25.38% |
| Trade and other payables | 780 | 45.50% | 1,695 | 56.59% |
| Total Current Liabilities | 1,714 | 100% | 2,995 | 100% |

During the last year the total amount of the short-term liabilities increased by 42.74%, reaching EUR 1,714 thousand at period-end. The main reason for this decrease is the recognition of the received advances on the sale of the properties in Mladost 4 in the revenues of the Company and respectively the write-off from the current liabilities. This action also leads to a change in the structure of liabilities, reducing the share of trade payables. However, at the end of the year, they remained at 45.53%. Mainly these liabilities are to the managing company and are related to retained guarantee amounts of builders for good performance and accumulated unpaid management fees. In the next year, with the expiry of the retention periods for the construction

companies' guarantee funds and after their payment, the size of the trade obligations is expected to decrease further.

Secondly, 33,99% of the current liabilities are classified as "Current portion of long-term interest bearing loans". This note records the amount of the contributions due in the next year for the principal of the investment loan of the Company and the interest accrued at the end of the year. The reported increase is due to the payments under the repayment schedule on the principal of the loan. Expectations in the next reporting periods are that this amount will continue to increase as the current principal is increased.

The next position, with a share of 20.48%, was held by the provisions for dividends for the 2017 financial year within the amount of EUR 351 thousands. The sum calculated in this manner represents 90% of the transformed financial result, determined in line with Article 10 of the Special Purpose Vehicles Act. The final sum designated for distribution as dividends for 2017 shall be determined after execution of the audited report of the Company and its respective adoption at the regular General Meeting of Shareholders (GMS), when the financial results for the year 2017 shall be put to the vote.

During the next reporting period, the Fund estimates that the value of short-term liabilities will increase, with the expected increase in dividend provision being the main consideration.

■ 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 purposes of its current projects, the Company has financial resources that are sufficient to secure its operation during the next year. With regard to the development of the new investment project for an office building in Sofia Tech Park, the Company intends to rely both on capital raise and new external financing.

3.3 Capital resources

In the end of December, 2017 the total long term capital of the Company, both equity and borrowed marked an increase of 6.05% up to EUR 42,742 thousands. This change was due to the utilized bank loan and the realized financial result for the last reporting period, leading to increase of the equity. During the past year the structure of the long-term capital has changed - the share of borrowed fund recorded a decrease from 11.3% in the end of the previous year to 10.8% at the end of the last year.

During the next reporting periods, along with the realization of new financial results and continuing payment of the principal under the assimilated banking loan, it is expected for the share of the own capital to continue increasing.

Further increase in equity is expected when a fundraising campaign is successfully implemented. The distribution between equity and borrowed funds for the past two years is presented in the figures below.

Figure 2: Allocation between equity and external financing

BREF Long-term Capital Structure (2017) BREF Long-term Capital Structure (2016)

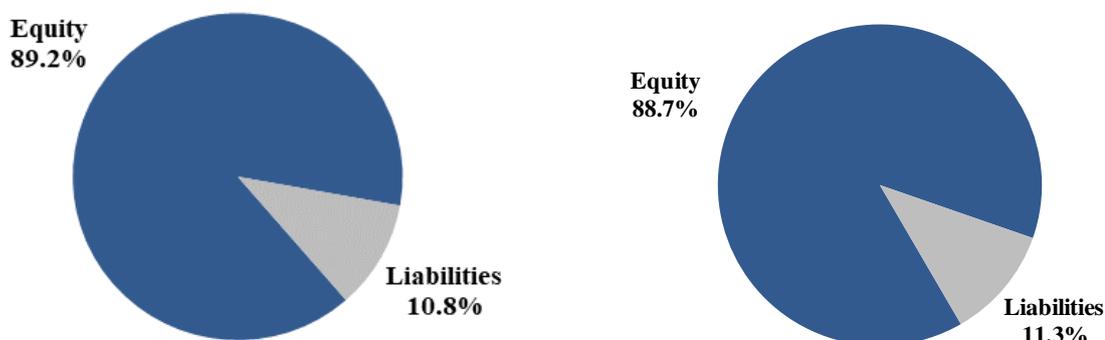


Table 6 –Leverage ratios

| Leverage ratios | 31.12.2017 | 31.12.2016 |
|---|------------|------------|
| Debt-to-Equity | 0.12 | 0.13 |
| Non-Current Assets-to-Equity ratio | 1.10 | 0.99 |
| Long-term-Debt-to-Non-Current-Asset ratio | 0.11 | 0.13 |

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

■ Equity

At the end of 2017 the equity of BREF is EUR 38,135 thousand, which represents an increase of 6.69% as compared to 2016. The recorded increase is a result of the accounted and undistributed profit for the period, following from the good rental income and the assessed positive net revaluations of the assets of the Fund.

Table 7 – Total equity as of 31st December 2017 and 31st December 2016.

| Equity (in thousands) | 31.12.2017 | 31.12.2016 |
|--|---------------|---------------|
| Share capital | 30,907 | 30,907 |
| Share premium | 3,245 | 3,245 |
| Retained earnings/(accumulated losses) | 3,983 | 1,592 |
| Total equity | 38,135 | 35,744 |

■ External financing

In 2017 the Company have only one signed bank loan agreement with Eurobank Bulgaria AD. The loan is for 10 years and in the amount of up to BGN 11 million. The purpose of the loan is to finance the construction of the last office building of the Fund situated at the ring road. The interest due under the loan is the 3-month Sofibor +3.1%. The grace period for the principal is until the end of 2016 and in 2017 began its payment. The utilization of the funds was made in instalments according to the construction costs. The loan is secured with a contractual mortgage of the new office building and of two commercial outlets, with a total fair value as at 31 December 2017 of EUR 22,265 thousand, a pledge of current and future receivables under the operative lease agreements for the building and a pledge of all current and future receivables under received bank guarantees issued to the Fund by the lessee of the commercial outlets. During the year, the Company regularly paid the due contributions for the investment loan. Total outstanding principal at the end of the period is BGN 10.17 million.

■ Capital expenses during the next periods under review

After the acquisition of the construction right in Sofia Tech Park, the investment program of the Company during 2018 will be mainly focused on the development of the architectural and technical design of the new building and the organization of the project implementation. Following the development of the project, it is expected that the project budget will be determined, which, according to preliminary information, is expected to exceed EUR 35 million without the value of the construction right. To finance the new project, the Company intends to make an increase in the capital as well as to use external financing.

For the other projects, capital expenses will be made for Building 1 in Business Park Sofia, where a foyer repair and an extension of the access system in the building are planned.

3.4 Asset structure

The amount of the BREF assets by End-December 2017 increased by 2.49% to EUR 44,457 thousand, as compared to the end of 2016, when the amount of the assets was EUR 40,377 thousand. The registered increase was mainly as a result of the realized net real estate revaluation and of the realized rental income. During the next reporting period, with the generation of additional income from rent, we expect that the increasing of the assets of the Fund will continue. A more significant change will be observed in case of a successful increase of the Company's capital or in the provision of external financing for the investment program of BREF.

Table 6 – Asset structure

| Asset structure (thousand EUR) | 31.12.2017 | % share | 31.12.2016 | % share |
|-------------------------------------|---------------|--------------|---------------|--------------|
| Non-current assets incl. | 41,838 | 94.1% | 35,263 | 81.3% |
| - total property | 41,830 | 94.1% | 35,261 | 81.3% |
| Current assets incl. | 2,619 | 5.9% | 8,114 | 18.7% |
| - trade receivable | 83 | 0.2% | 72 | 0.2% |
| - investment property held for sale | 782 | 1.8% | 4,128 | 9.5% |
| - cash and cash equivalents | 1,744 | 3.9% | 3,903 | 9.0% |
| Total assets | 44,457 | 100% | 43,377 | 100% |

After the revaluations, sales and purchases of new properties a major change was observed in the asset structure in 2017. There is an increase in the fixed assets, which is based on the purchase of the construction right in Sofia Tech Park and the revaluation of properties at the end of the year. At the same time, there is a significant decrease in the short-term assets, which is the result of the write-off of the sold properties and the expenses on the acquisition of other properties. As a result, the share of fixed assets increases and reached 94.1% and the share of short-term assets decrease to 5.9%.

The next year after the start of the new project is expected to increase the cost of acquisition of tangible fixed assets, respectively, the fixed assets will increase, which will be at the expense of the cash in the short-term assets.

3.5 Financial Results

The activity of BREF in 2017 was mainly focused on the current management of the projects generating revenues for the Company. The main influence on the Company net results had the additional impact of the annual property revaluation.

■ Revenue from operations

Over the year the income of the Company increased significantly to EUR 7,671 thousand, which was an increase of 67.62% as compared to the prior year. The major reason for this result was the generated income from the sale of properties in Mladost 4 and the higher rental income.

Table 9 – Realized revenues in 2017 and 2016.

| Revenue (in thousand EUR) | 2017 | % share | 2016 | % share |
|---|--------------|-------------|--------------|-------------|
| Rental and service charge income | 3,158 | 41.2% | 2,141 | 46.8% |
| Income from sale of investment property | 3,375 | 44.0% | 1,061 | 23.2% |
| Interest income | 1 | 0.0% | 4 | 0.1% |
| Gain on derivative financial instrument | 0 | 0.0% | 23 | 0.5% |
| Net gains from fair value adjustments | 1,079 | 14.1% | 1,259 | 27.5% |
| Other Income | 58 | 0.8% | 89 | 1.9% |
| Total revenue | 7,670 | 100% | 4,577 | 100% |

The overall structure of the income thus changed, with an increased share of the income from the sale of properties and thus this article takes up the highest share of 44.0 %. The reported figures in this article are the sale of the two properties in Mladost 4, Sofia, the total value of which, according to the preliminary agreement was 3,368 thousand and the sale of a garage in residential building "Sequoia 2" in Borovets resort. During the next reporting period sales of other properties are currently not contracted and therefore no such revenue is expected to be realized.

Next, with a share of 41.2%, are the rents from real estate. The increase of 47.5% is due to the commissioning of the new office building of the Company - Kambanite and the generation of additional income from it during the year. In 2018, a further increase in rental income is expected as a result from additional office rents during the year in the Kambanite Green Offices and the updated rent payments under the lease agreement of Atos IT Solutions and Services EOOD in Building 1 in the BPS.

Changes also show net income from property revaluations. The revaluation of the new office building Kambanite on the Ring Road in Sofia and the revaluation of Building 1 in Business Park Sofia were the main reason for the higher result. During the next reporting period significant changes in the real estates of the Fund are not expected and the reported net revaluations will be less.

In Other income article this year are included earnings related mainly to write-off of outstanding provisions in court cases from previous years.

During the next year it is expected that the income of the Fund will decrease as a result to the lack of new property sales, but it is expected that the rental income will increase.

■ Expenses from operations

In addition to the revenue, the Company's expenses, which are twice as big as the previous year, are also marked by a significant increase. The main figures for this increase are the values of the properties sold during the year, which also have the biggest share of the expenses for the past year. This expense is one-time in the case of sale, and there are no new negotiated deals which will reflect in this article in the next reporting period.

Table 10 – Realized expenses 2017 and 2016.

| Expenses (in thousand EUR) | 2017 | % share | 2016 | % share |
|---|----------------|-------------|----------------|-------------|
| Value of sold property | (3,374) | 68.4% | (1,159) | 47.7% |
| Interest expense | (180) | 3.7% | (104) | 4.3% |
| Management fees | (551) | 11.2% | (523) | 21.5% |
| Direct operating expenses arising from properties | (672) | 13.6% | (494) | 20.3% |
| BOD remunerations | (59) | 1.2% | (56) | 2.3% |
| Employee benefit costs | (29) | 0.6% | (29) | 1.2% |
| Other expenses | (64) | 1.3% | (65) | 2.7% |
| Total expenses | (4,930) | 100% | (2,430) | 100% |

Also, the amount of "Direct operating expenses arising from properties" remains significant, they have a share of 13.6% of the total cost. Their increase is mainly related to the increased tax costs and the maintenance of the new office building Kambanite. Other expenses reported in this article are those for repairs and rewards for professional services related to property transactions realized during the year.

Next are the remuneration costs of the managing company. The reported changes are due to the change in the Fund's net assets and the change in the remuneration for managing the Fund's activity. The cost is kept at a level close to the previous year, which is expected as a trend also in subsequent reporting periods.

In 2017, a share of 3.7% is the Interest expense article, which includes the paid and accrued interest on the Company's loan. This account shows an increase over the previous year. That's a result of the average higher principal due in 2017 compared to the previous year when the loan was absorbed. Over the next reporting period, interest expense is expected to begin to decrease with the reduction in the principal on the loan.

In the Other expenses item, there aren't significant changes compared to the previous year. The main recorded costs are those related to the administrative management of the Fund and a potential increase may occur when starting a campaign to increase the Company's capital.

The main factors that will affect the costs during next year are the lack of written cost of sold properties and the lack of transaction-related costs. An increase in some costs can be observed as a result of the implementation of the new project in Sofia Tech Park and the realization of the capital increase.

■ Financial result

Table 11 – Financial result for 2016 and 2015.

| Financial Result | 2017 | 2016 |
|---------------------------------------|--------------|--------------|
| Revenues | 7,671 | 4,577 |
| Expences | (4,929) | (2,430) |
| Net profit/loss for the period | 2,742 | 2,147 |

During the past year, BREF reported a profit of EUR 2,742 thousand. The main reasons for the increased result are higher rental income, including revenues from the Kambanite Office Building and the net gain on revaluations of properties reflected in the Company's financial statements. On the other hand, the impact on the year-end book result of the real estate purchase and sale transactions is minimal because their respective book values have already reflected the respective market prices. As far as the adjusted financial result for distribution as a dividend is concerned, the most significant impact had the sale of a real estate in Mladost 4, whose negative adjustment amounts to EUR 1,267 thousand and the adjustment from the net revaluation is in the amount of EUR 1,079 thousand.

Expectations for the next reporting period, in the absence of net gain on revaluation, are for a decrease in the book profit, but an increase in the adjusted financial result for distribution as a dividend.

The book profit allocated to the average number of shares (which the General Meeting of Shareholders changed to 20,150 thousand in February 2016) during the year yielded earnings per share (EPS) at the amount of 0.136 EUR. The profit provided for the distribution of dividend for year 2017 determined in accordance with the requirements of Article 10, paragraph 3 of the Special Purpose Vehicles Act is EUR 351 (BGN 687) thousand, which carries a gross dividend per share of EUR 0.0174 per share (based on the changed number of shares).

| Results per share (EUR '000) | 2017 | 2016 |
|------------------------------------|--------|--------|
| Earnings | 2,742 | 2,147 |
| Earnings per share (EPS) | 0.136 | 0.107 |
| Net asset value (NAV) | 38,135 | 35,744 |
| Adjusted common shares outstanding | 20,150 | 20,150 |
| NAV per share | 1.893 | 1.774 |
| Dividend per share | 0.0174 | 0.0377 |
| Fair value per share | 1.910 | 1.812 |

The net asset value per share (NAV) during the past reporting period increased from EUR 1.774 per share to EUR 1.893 per share, which constitutes an annual increase of 6.69%. The registered increase in the net value per share results mainly from the reported profit for the period.

■ **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 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

The company is exposed to liquidity risk with regard to paying off its current liabilities. At current moment the Fund has enough available funds to finance its operative and investment activity and intends to provide additional capital for the realization of its investment program.

Construction risk

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

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 Fund 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 Fund to non-collected receivables is minimized. The major credits risk the Fund is exposed to with regard to the other financial assets (other than trade receivables), arises as a result of the deposits opened with the bank institutions.

■ *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 Events after the reporting date

Following the Special General Meeting of the Shareholders held on 28.02.2018 and the entry in the Commercial Register of the amendments to the Articles of Association of the Company, the capital of “Bulgarian Real Estate Fund” REIT was officially decreased to BGN 20 150 000 (twenty million one hundred and fifty thousand Bulgarian leva), divided into 20 150 000 (twenty million one hundred and fifty thousand) common dematerialized shares with voting rights and nominal value of BGN 1 (one) each.

5 Share performance

Unlike the previous year, when the price of the shares of “Bulgarian Real Estate Fund” REIT increased by 45.6%, in 2017 their price decreased by 1.9%. The decrease is a result of the expected lower dividend for 2017 and the launch of the Company's new project.

After the particularly strong growth in 2016, the sector of listed special purpose vehicles showed a more moderate performance in the past year. For the whole of 2017, the stock index BGREIT, which monitors the performance of the sector, grew by 7.39%, reaching 116.10 points at the end of the year. In spite of their moderate stock exchange performance during the year, real estate investment companies continue to attract investor interest, and their shares remain among the most traded on the BSE – Sofia in 2017, both in terms of number of deals, and in terms of turnover.

The Bulgarian capital market as a whole had a successful 2017, despite the fall in main indexes in the fourth quarter of the year. The main stock index SOFIX ended the year with an increase of 15.52% for the past 12 months reaching 677.45 points. The broad index BGBX 40 followed SOFIX I and ended the year at 132.00 points, marking an increase of 18.60% on an annual basis.

The positive trends have also led to a significant increase in trading on the BSE – Sofia. Over the past year, the turnover of the regulated market on BSE – Sofia grew by 69.7% to BGN 705.85 million. Only in the last quarter of 2017 the turnover of the Main Market of BSE – Sofia increased by 13.1% on an annual basis.

The main risk factors facing the Bulgarian economy and in particular public companies on the capital market are related to a potential slowdown in economic growth in Bulgaria and the EU – the country's main trading partner, as well as insufficient short- and long-term foreign investment in the country and in particular the BSE – Sofia.

Summarized trading details for the 52 week period – 1st January 2017 – 31st December 2017:

- Opening Price – BGN 2.197 (3 January 2017)
- Closing Price – BGN 2.224 (29 December 2017)
- Highest Price – BGN 2.434 (11 August 2017)
- Lowest Price – BGN 2.160 (16 June 2017)
- Total Trading Volume – 2,538,623 shares
- Turnover for the period – BGN 5,760,762 (EUR 2,945,431)
- Weighted average price – BGN 2.269
- Market Capitalisation (31.12.2017) – BGN 44,813,600 (EUR 22,912,830)

**BREF Share Price Performance
(01.01.2017 - 31.12.2017)**

