

“Bulgarian Real Estate Fund”

First Quarter Summary Report



30 April 2018

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1 Overview of the Fund

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

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

The principle investment objective of the Fund is to provide its shareholders with a combination of current income and long-term appreciation of the common stock value. To achieve the set targets, BREF implemented a strategy to acquire, develop, manage and lease properties that have superb potential for cash-flow growth and capital appreciation. With these objectives BREF constructed a portfolio of 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 (31.03.2018)	Shares Outstanding
Bulgarian Stock Exchange Sofia	5BU(BREF)	EUR 18,750,607	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 the past quarter, there are no significant changes in the Company's portfolio.

At the end of the period the business properties share is remain 56%. The trade properties are 26% and the share of the investment and vacation properties had share of 7% each. The expectations for the next quarter when is the start of the new project and with the planned new investment is that the share of the business properties in the portfolio will continue to grow on the account of the cash resources.

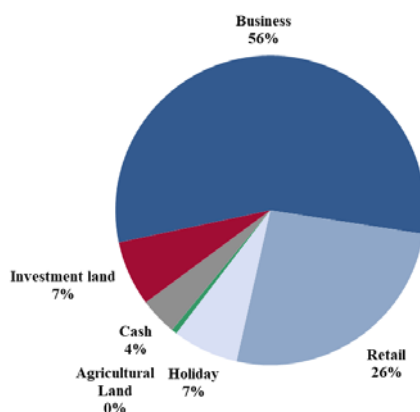
The key highlights during the past quarter were as follows:

- Design of the new office building in Sofia Tech Park and organization of the project implementation;
- Operational management of the Kambanite Office Building;
- Negotiation and signing of a new lease agreement for premises in Kambanite Office building;
- Operational management of Building 1 in Business Park Sofia;
- Operational management of the properties leased to Mr.Bricolage and renovation of the installations in the store in Sofia;
- Preparation of a prospectus and organization of the Fund's capital increase.

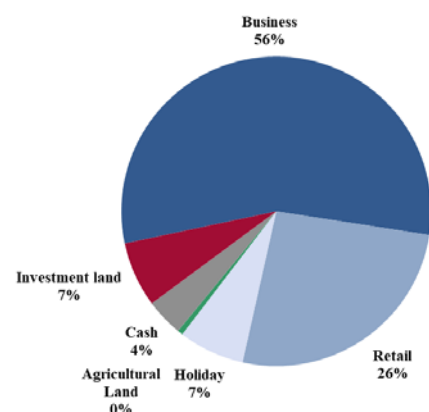
The projects managed by BREF as of the end of March 2018 were ten, diversified in different sectors of the real estate market in Bulgaria.

Figure 1. Investment allocation in types of market sector

Portfolio structure – Q1/2018



Portfolio structure – Q4/2017



In the past quarter 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 31.03.2018	Future investments
Current projects				
"Mr. Bricolage" - sale and leaseback	operational management	10,391	11,593	51
Agricultural land	operational management	58	249	
Apartment house "Sequoia 2" - Borovetz	for sale	1,659	782	
Office building 1 - Business Park Sofia	operational management	7,416	8,643	77
Kambanite Office Building	operational management	8,914	11,043	26
Office building Sofia Tech Park	in construction	5,157	5,023	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		41,161	42,638	153

* 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 is set for sale, and the Office building in Sofia Tech Park is in construction. 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.).

In 2016 the loan used to finance the project is fully repaid and from 2017 the received cash resource from the rental income entirely remains in 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.

During the first quarter of the year the lease agreements were regularly serviced. During this year replacement is planned of the roof insulation along with renovation of some installations in the Sofia property.

2.3 Project – Agricultural Land

The total agricultural land owned by BREF as of the end of the first quarter 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 center of the resort.

During the past quarter there were no sold properties. As of the end of March, 2018 the total quantity of sold apartments was ten and one garage. The sales campaign for the remaining properties in the building continues.

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 price of EUR 7.2 million.

In the last quarter, the Company continued with the management of the properties and as during the quarter the new lease agreement with Atos IT Solutions and services EOOD entered into force at new higher rental levels. The total leased area is 2,349,49 sq.m. and 12 parking spaces in the underground parking lot.

During the three-month period, the Company continued the preparation for the lobby renovation project. Offers are currently being collected. In addition, a new access system was installed which led to better security in the offices.

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 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 March 2018, 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 130, of which 48 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.

After the reporting period, the Company entered into a new lease agreement with Survey Sampling Bulgaria EOOD. The contract is for 5 years and the total leased area is 912.76 sq.m. With the new premises, the building's occupancy reaches 89.42%.

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 2018, the outstanding principal amounts to BGN 9.89 million. The terms of the loan are described in article 3.3 below.

Project parameters:

Office Building Kambanite	
Built-up area	13,205 sq.m
Leasable office area	9,356 sq.m.
Parking lots	214
Construction budget	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 (4,934,989 EUR), 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, 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 33 million. The financing of the new project will be realized with a capital increase and on second stage - with borrowed funds.

2.8 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. 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:

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 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 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
Purchase price	EUR 0.19
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 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 2017 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. After execution of the sales in the end of 2017, during 2018 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 Q1/ 2018

3.1 Summarized Financial Statements

The following financial statements are based on non-audited financial statement for the first quarter of 2018.

Table 3 – Balance sheet as of 31 March 2018 and 31 December 2017.

(All amounts in EUR '000)	31.03.2018	31.12.2017
ASSETS		
Non-current Assets		
Investment property	41,758	41,758
Cost for acquisition of fixed assets	99	72
Plant and equipment	4	5
Intangible assets	3	3
Total Non-current Assets	41,864	41,838
Current Assets		
Investment property held for sale	782	782
Trade receivable	161	81
Cash and cash equivalents	2,012	1,744
Other current assets	2	2
Deferred expenses	12	10
Total Current Assets	2,969	2,619
TOTAL ASSETS	44,833	44,457
EQUITY AND LIABILITIES		
Equity		
Share capital	10,303	30,907
Share premium	23,849	3,245
Retained earnings	4,491	3,983
Total equity	38,643	38,135
Non-current liabilities		
Interest bearing loan	4,458	4,608
Total Non-current liabilities	4,458	4,608
Current liabilities		
Current part of non-current liabilities	589	583
VAT payable	72	-
Payables to management company	536	572
Payables to the personnel and SIC	-	2
Provisions for dividends due	351	351
Trade and Other current liabilities	184	206
Total Current liabilities	1,732	1,714
Total liabilities	6,190	6,322
TOTAL EQUITY AND LIABILITIES	44,833	44,457

Table 4 – P&L statement for 31.03.2018 and 31.12.2017

(All amounts in EUR '000)	Q1 - 2018	Q4 - 2017
Income from sale of assets	-	3,368
Rental income	844	804
Other Income	6	1,131
Total Revenue	850	5,303
Value of sold assets	-	(3,367)
Interest expense	(41)	(44)
Management fees	(144)	(146)
Materials expense	(2)	(5)
BOD and employees salaries expense	(19)	(30)
Other expenses	(135)	(276)
Total expenses	(341)	(3,868)
Profit/(loss) for the period	509	1,435
Adjusted weighted average number of shares in the quarter (in thousands)	20,150	20,150
Earnings per share - basic and diluted	0.025	0.071

3.2 Liquidity

Table 5 – Liquidity indicators for BREF as of 31.03.2018 and 31.12.2017

Liquidity Ratios	31.03.2018	31.12.2017
Current ratio	1.71	1.53
Quick ratio	1.26	1.07
Cash ratio	1.16	1.02

In the past quarter, the liquidity ratios registered an increase. The main change comes from the increase in cash which is a result of higher rental income. The current liquidity ratio still is below 2 but it had reached 1.71, and quick and cash liquidity ratios rose to 1.26 and 1.16 respectively.

In the next reporting period, the costs for the implementation of the new investment project in Sofia Tech Park are forthcoming, so it is expected that the Company's liquidity will decrease.

■ Internal Sources of Liquidity

During the quarter internal sources of liquidity registered an increase, as it was higher for short-term assets over the short-term liabilities. The basis of these changes is the cash amount in the assets and the amount of tax payable in the liabilities.

Short-term (current) assets
Table 5A – Current assets as of 31.03.2018 and 31.12.2017.

Liquidity sources	31.03.2018	%	31.12.2017	%
Current Assets				
Investment property held for sale	782	26.33%	782	29.85%
Trade receivable	161	5.42%	81	3.10%
Cash and cash equivalents	2,012	67.78%	1,744	66.58%
Other current assets	2	0.05%	2	0.08%
Deferred expenses	12	0.41%	10	0.39%
Total Current Assets	2,969	100%	2,619	100%

The total amount of the current assets of BREF increased by 13.39%, reaching EUR 2,970 thousand at the end of the period. The basis of this change is the change in the value of cash and cash equivalents and trade receivables. The overall structure of current assets was retained, with the share of cash and cash equivalents remaining at 67.77%. The main reason for their increase, as mentioned above, is the increased rental income. During the next reporting period the cash at hand to the Company is expected to decrease as a result of the expenses that will be incurred in connection with the new project of the company in Sofia Tech Park.

The investment properties took the second position with a share of 26.33%, which value remains the same as for the previous reporting period. In this item are posted only the properties that form part of the residential building "Sequoia 2" in the Borovets resort. In the next reporting period, unless there are new sales of properties, the item is expected to retain its value.

Next, with 5.44%, were trade receivables and interest. They have increased their amount as a result of amendments to the company's contract with Atos IT Solutions and Services EOOD. No significant change in receivables is expected in the following quarter.

The item "Other" receivables kept its amount compared to the previous reporting period. The main entry for this item in the next reporting period will be the taxes and real estate tax paid in advance, which will be a prerequisite for its increase.

The total amount of current assets in the subsequent reporting periods will mainly depend on realized rental income and real estate sales, if any.

 o **Short-term (current) liabilities**
Table 5B – Current liabilities as of 31.03.2018 and 31.12.2017

Liquidity sources	31.03.2018	%	31.12.2017	%
Current liabilities				
Current part of non-current liabilities	589	34.01%	583	34.00%
VAT payable	72	4.13%	0	0.00%
Payables to management company	536	30.94%	572	33.37%
Payables to the personnel and SIC	0	0.00%	2	0.12%
Provisions for dividends due	351	20.28%	351	20.49%
Trade and Other current liabilities	184	10.63%	206	12.02%
Total Current Liabilities	1,732	100%	1,714	100%

Over the past quarter the total amount of short-term liabilities registered an increase of 0.98% compared to the previous reporting period and at 31.03.2018 reached EUR 1,732 thousand. The main reason for this change is the accrued VAT payable at the end of the reporting period. The overall structure of current liabilities is maintained, with short-term borrowings with accruing interest added holding first position with 34.01%. Their value amounted to EUR 589 thousand, the reported increase being 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.

Next, with 30.94%, are the payables to the managing company which have decreased compared to the previous period. The change is due to paid liabilities under the new project in Sofia Tech Park. Another major part of the payables in this item are those related to the construction of the Kambanite Office Building and, respectively, the retention money withheld from the contractors, which serve as a guarantee of good performance. Such retention money is expected in the future under the new investment project of the Company.

The provisions for dividends for the financial year 2017, amounting to EUR 351 thousand, are next in the structure of the liabilities. The amount so calculated represents 90% of the adjusted financial result determined in accordance with Article 10 of the Special Investment Purpose Vehicles Act. The final amount to be distributed as a dividend for 2017 will be voted at the regular General Meeting of Shareholders (GMS) convened for 20 June 2018, when the financial results for the past year will be voted.

The fourth position in the short-term liabilities holds the Company's trade and other payables with 10.63%. The reported decrease is due to lower utilities charges accrued at the end of the reporting period. Other entries in this item are the Company's liabilities under guarantees received under lease agreements or advance rents, which will be retained in the next reporting periods.

Substantial changes in current liabilities are not expected in the next quarter; changes may occur in trade payables and taxes payable in particular.

■ External Sources of Liquidity

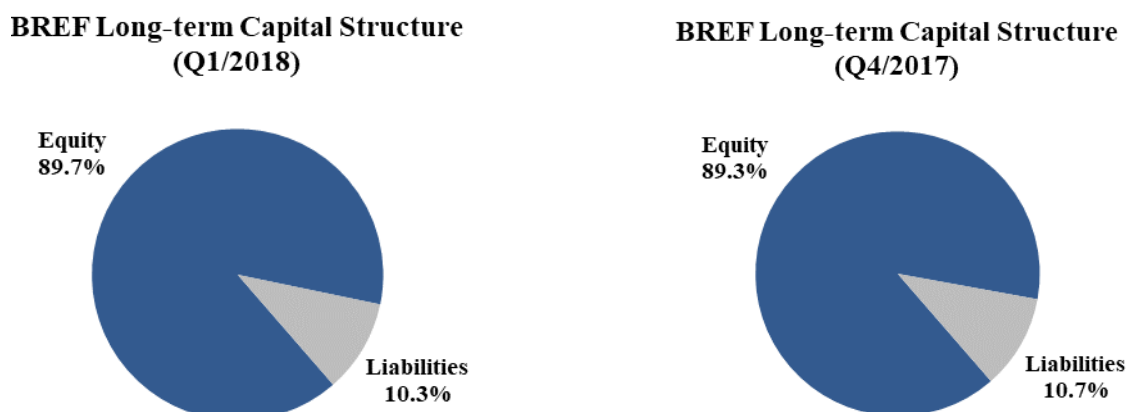
The external sources of liquidity are the equity and the investment loans as described in detail in section 3.3. Capital resources.

For the purpose of its ongoing projects, the Company has the financial resources that are sufficient to secure its operations over the next months. 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 March 2018 the total long term capital of the Company, both equity and borrowed, marked an increase of 0.84% up to EUR 43,101.39 thousands. This change was due to the realized financial result for the last reporting period, leading to an increase of the equity. During the past quarter the structure of the long-term capital has changed—the share of borrowed funds recorded a decrease from 10.8% at the end of the previous year to 10.3% in the end of the last quarter.

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. The ratio between the own and attracted funds for the past quarters was specified in the figures provided hereinafter below.

Figure 2: Allocation between equity and external financing

Table 6 – Leverage ratios

Leverage ratios	31.03.2018	31.12.2017
Debt-to-Equity	0.21	0.17
Non-Current Assets-to-Equity ratio	1.08	1.10
Long-term-Debt-to-Non-Current-Asset ratio	0.11	0.11

*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 2018, the equity of BREF is EUR 38,643 thousand, which represents an increase of 1.33% as compared to the prior quarter. The recorded increase is wholly due to the registered by the Fund profit for the period.

Table 7 – Total equity as of 31.03.2018 and 31.12.2017

Equity (in thousands)	31.03.2018	31.12.2017
Share capital	10,303	30,907
Share premium	23,849	3,245
Retained earnings	4,491	3,983
Total equity	38,643	38,135

During the past quarter there is a change in the structure of the equity. The amendment resulting from the entry in the Commercial Register of the amendments to the Articles of Association of the Company voted at the Extraordinary General Meeting of the Shareholders held on 28.02.2018. According to these changes, the Company's share capital was reduced from BGN 60.45 million (EUR 30.90 million) to BGN 20.15 million (EUR 10.30million), the difference of BGN 40.30 million (EUR 20.60 million) has been transferred to the Reserve Fund.

■ External financing

In the first quarter of 2018 the Company has only one bank loan agreement concluded with Eurobank Bulgaria AD. The loan term is for 10 years and at the amount of 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%. In the first quarter of 2018, the Company has regularly paid the due contributions on the investment loan. The outstanding principal amount as of the period was EUR 5.06 million.

■ Capital expenses during the next periods under review

After the acquisition of the construction rights in Sofia Tech Park the investment program of the Company during 2018 will be mainly focused on the development of the architecture and the technical projects of the new building and on the organization of the project implementation. After the design development it is expected to be defined the project budget which according to previous information will be over EUR 33 million excl. the construction right price. To finance the project, the Company intends to make capital increase and also to use borrowed capital.

As of the other projects - capital expenses will be made for Building 1 in Business Park Sofia where is planned to renovate the lobby and to replace the roof insulation. Capital expenditure will be made in Mr.Bricolage store in Sofia where the air conditioning will be refurbished.

3.4 Asset structure

The amount of the BREF assets by the end of the first quarter increased by 0.85% to EUR 44,833 thousand, as compared to the end of the prior quarter, when the amount of the assets was EUR 44,457 thousand. The recorded increase was mainly as a result of cash increase. In the next reporting period, with the realization of additional rental income, the assets are expected to continue to grow, more significant change will be observed with the successful increase of the Company's capital or in the provision of external financing for the BREF investment program.

Table 6 – Asset structure

Asset structure (thousand EUR)	31.03.2018	% share	31.12.2017	% share
Non-current assets incl.	41,864	93.38%	41,838	94.11%
- total property	41,758	93.14%	41,758	93.93%
- cost for acquisition of fixed assets	99	0.22%	72	0.16%
Current assets incl.	2,969	6.62%	2,619	5.89%
- trade receivable	161	0.36%	81	0.18%
- investment property held for sale	782	1.74%	782	1.76%
- cash and cash equivalents	2,012	4.49%	1,744	3.92%
Total assets	44,833	100%	44,457	100%

In the first quarter of 2018, the structure of the Company's assets did not undergo substantial changes compared to the previous reporting period. There is also a slight increase in the share of short-term assets at the expense of long-term assets. The change comes as a result of increases in cash and trade receivables.

During the next reporting period after the start of the new project it is expected that the amount of expenditures for acquisition of TFA shall commence to increase, which shall be at the expense of the pecuniary funds in the current assets. An increase in the short-term assets will occur in case of a successful increase in the Company's capital when the total amount of the assets will increase.

3.5 Financial Results

The activity of the Company in the first quarter of 2018 was mainly focused on the management of revenue-generating projects for the Company, and the managing of the project in Sofia Tech Park.

Revenue from operations

In the last quarter the reported revenues amounted to EUR 850 thousand, an 83.97% decrease compared to the previous quarter. The main reason for this decrease was the reported during the previous quarter sales of properties in Mladost 4 in Sofia and the accrued net income from revaluation of properties carried out at the end of the year.

Table 9 – Realized revenues in first quarter of 2018 and the fourth quarter of 2017

Revenue (in thousand EUR)	Q1 - 2018	Q4 - 2017
Income from sale of assets	-	3,368
Rental income	844	804
Other Income	6	1,131
Total revenue	850	5,303

The greatest share, of 99.34 %, during the past quarter was that of the rental income. Its amount reached EUR 844 thousand which is 4.96% increase compared to the previous quarter. The reported increase is mainly due to the updated rental payments under the lease agreement of Atos IT Solutions and Services EOOD in Building 1 in the BPS, as well as the indexation of the majority of the lease agreements.

The Income from sale of assets during this period are not reported also such incomes are not expected during next quarter.

Significant change is observed in the article Other income and as it was mention before the main reason is that during this quarter there were no property revaluations.

Expectations for the next quarter are total revenues to rise further as the main reason for this will be the increased rental income when the full effect of the renewed contract of Atos IT Solutions and Services EOOD will be reflected. An additional impact on the revenues from the new lease in the office building will be in the third quarter of the year and beyond.

■ Expenses from operations

In the past quarter the total expenses of BREF decreased by over 91.18% compared to the previous reporting period and at the end of the quarter reached EUR 341 thousand. The main reason for this decrease is the written value of the sold property in the fourth quarter of 2017. Such sales have not been reported in the past quarter.

Table 10 – Realized expenses 31.03.2018 and 31.12.2017.

Expenses (in thousand EUR)	Q1 - 2018	Q4 - 2017
Value of sold assets	-	(3,367)
Interest expense	(41)	(44)
Management fees	(144)	(146)
Materials expense	(2)	(5)
BOD and employees salaries expense	(19)	(30)
Other expenses	(135)	(276)
Total expenses	(341)	(3,868)

During the first trimester of the year the biggest share of the Company's expenses with share of 42.13% is that for the managing company. The expenses on the fee of the managing company kept the level from the prior quarter. During the next reporting periods will be made changes in the fee afterwards the successfully realizing the increase in the capital of the Fund.

With a share of 39.58%, "Other expenses" holds the second position in the item of expenses. The decrease is due to the incurred additional costs of transactions for the purchase and sale of real estates realized in the fourth quarter of 2017, which were not reported during the past period. Other large expense in this item is for taxes and fees related to real estate, for hired services on property management and maintenance, bank charges and other administrative costs. In the following reporting periods, the amount of this item is expected to remain at this level and to remain within these limits in the absence of new property transactions.

Expenses on interest payable hold a share of 12.14% and include the paid and accrued interest on the loan of the Company. This item shows a decrease compared to the previous period due to the decreasing principal on the loan of the Company. In the next reporting period, interest expense is expected to continue to decrease with the decrease in loan payables.

It is expected that during the next reporting period the levels of expenses will be maintained; an increase in some expenses can be observed as a result of the implementation of the new project in Sofia Tech Park.

■ Financial result

During the first quarter of 2018, the Company realized a profit within the amount of EUR 509 thousand, and the main contribution for the recorded result pertained to rental income. The marked decline in profit is the result of reported net positive real estate revaluations at the end of 2017, which were not registered in the past quarter. In the following reporting periods, in the absence of new sales and revaluation of property, the financial result of the company is expected to depend mainly on realized rental income, maintaining its current level.

Table 11 – Financial result

Financial Result	Q1 - 2018	Q4 - 2017
Revenues	850	5,303
Expences	(341)	(3,868)
Net profit/loss for the period	509	1,435

The accounting profit divided by the adjusted average number of shares during the period gives the earning per share (EPS) of EUR 0.025.

Results per share (EUR '000)	2018 **	2017	2016	2015
Earnings	509	2,742	2,147	1,027
Earnings per share (EPS)	0.025	0.136	0.107	0.051
Net asset value (NAV)	38,643	38,134	35,743	34,357
Adjusted common shares outstanding	20,150	20,150	20,150	20,150
NAV per share	1.918	1.893	1.774	1.705
Dividend per share	0.0174	0.0174	0.0377	0.0408
Share fair value*	1.935	1.910	1.812	1.746

* Fair value of share = NAV per share + Dividend per share

** The net value of assets for 2018 was based upon an unaudited report, and for the period 2015-2017 in line with audited reports

The NAV per share, according to the unaudited statement of the Company, increased from EUR 1.89 per share at the end of 2017. to EUR 1.92 per share at the end of the first quarter of 2018, which is due entirely to the realized profit for the past 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 2018, 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.

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 credit 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

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.

■ ***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 three months of 2018, the share price of Bulgarian Real Estate Fund REIT dropped on annual basis with 19.47% after rising during the middle of 2017. Since the beginning of the year, the company's shares have lost 17.39% of its market value.

BGREIT, the index that tracks REITs, declined by 1.36% to 114.93 points in March. The index added 0.96% to 116.52 in February, following a 0.59% decline in January to 115.41 points. For the first quarter of the year, the stock index BGREIT, which tracks the performance of the sector, dropped by 1.01% and its level at the end of the quarter reached 115.38 points. For the period 01.04.2017 – 31.03.2018 the index recorded an increase of 5.36%. Real estate investment companies, however, continue to attract investor interest and their shares are traditionally one of the most traded on the BSE-Sofia.

The negative trend is reflected in the stock market, the leading index of the Bulgarian stock exchange SOFIX declining by 4.17% from the beginning of the year to the end of March, reaching 649.17 points. The broad index BGBX 40 also fell into the negative trend with a decline of 2.62% over the period 01.01.2018 – 31.03.2018.

All indexes declined, the biggest decline recorded by SOFIX, and the overall negative market trend reflected on the Bulgarian Stock Exchange, its market capitalization shrinking by 59% in the first quarter of 2018 compared to the previous one.

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 period 01.04.2017 - 31.03.2018:

- Opening Price – BGN 2.200 (03 April 2017)
- Closing Price – BGN 1.820 (29 March 2018)
- Highest Price – BGN 2.434 (11 August 2017г.)
- Lowest Price – BGN 1.820 (29 March 2018)
- Total Trading Volume – 2,567,627 shares
- Turnover for the period – BGN 5,721,410 (EUR 2,925,310)
- Weighted average price – BGN 2.228
- Market Capitalization (31.03.2018) – BGN 36,673,000 (EUR 18,750,607)

**BREF Share Price Performance
(01.04.2017 - 31.03.2018)**

