

# **“Bulgarian Real Estate Fund”**

## **Fourth Quarter Summary Report**



30 January 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 (31.12.2017)	Shares Outstanding
<b>Bulgarian Stock Exchange Sofia</b>	<b>5BU (BREF)</b>	<b>EUR 22,912,830</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

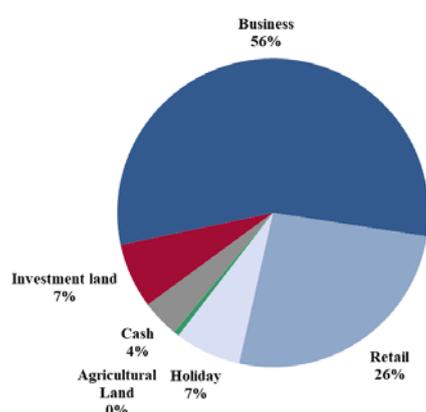
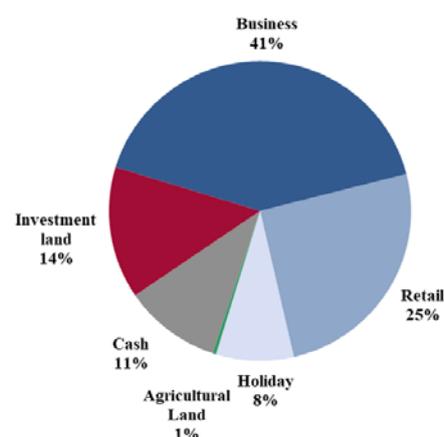
In the past quarter, there are significant changes in the Company's portfolio. The main events that are affected are the purchasing of the construction right in Sofia Tech Park and the final selling of part of Mladost 4 plots in Sofia. As a result, at the end of 2017, the share of business properties had increased, the shares of the investment properties and the cash resources had decreased.

At the end of the period after the reported increase - the business properties share is 56%. The trade properties are 26% and the share of the investment properties had decreased to 7%. 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:

- Signing of the final agreement for the acquisition of a construction right in Zone 2 of the development plan of the Science and Tech Park, Sofia;
- Launching the design activities of the new office building in Sofia Tech Park and organizing the project implementation;
- Operational management of the Kambanite Office Building and handover of the additionally leased spaces to Adecco and Konica Minolta;
- Looking for tenants for the free office space in the Kambanite Office Building;
- Operational management of Building 1 in Business Park Sofia and re-signing of the lease agreement with Atos IT Solutions and Services EOOD;
- Operational management of the properties leased to Mr.Bricolage and renovation of the installations in the store in Sofia;
- Signing of final contracts for the sale of two properties in Mladost 4 in Sofia;
- 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**
**Portfolio structure – Q4/2017**

**Portfolio structure – Q3/2017**


In the fourth 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 31.12.2017	Future investments
<b>Current projects</b>				
"Mr. Bricolage" - sale and leaseback	operational management	10,391	11,593	
Agricultural land	operational management	58	249	
Apartment house "Sequoia 2" - Borovetz	for sale	1,659	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	5,142	n.a
<b>Pipeline projects</b>				
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
<b>Total</b>		<b>41,135</b>	<b>42,746</b>	<b>77</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 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.).

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.

During the fourth quarter of the year the lease agreements were regularly serviced. Also, during the same period, the process of renovation of the heating installation continued in the store in the Sofia. 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 fourth quarter 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 there were no sold properties. As of the end of December, 2017 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 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 rent will start in February 2018.

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 will be installed which will lead to better security in the offices.

**Project parameters:**

<b>Building 1 - Buisness Park Sofia</b>	
Built-up area - offices	7,318 sq.m
Parking lots	68
Acquisition price	EUR 7.2 M
Occupancy rate	100.0%

## **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.

**Project parameters:**

<b>Office Building Kambanite</b>	
Built-up area	13,205 sq.m
Leasable office area	9,356 sq.m.
Parking lots	214
Investment	EUR 8.9 M
Occupancy rate	80.25%

## **2.7 Project – Office building Sofia Tech Park**

After the signing of the preliminary agreement with Sofia Tech Park at the end of June 2017 and the acquisition of the construction right in Zone 2 of the development plan of the Sofia Tech Park, in the end of October BREF had signed final construction right agreement.

Under the agreement, the total purchase price for the construction right acquisition is BGN 9,652,000 (4,934,989 EUR). 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.

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.

## **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:**

<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

## **2.9 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 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:**

<b>Investment Plots near Veliko Turnovo</b>	
Total plots' area	148,554
Purchase price	EUR 192,000
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:**

<b>Investment Plots near Vidin</b>	
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 past quarter 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:**

<b>Investment Plots, Sofia - Mladost IV district</b>	
Total plots' area	16018 sq.m
Purchase price	EUR 4.8 M
Status	suspended

## 3 Financial Highlights Q4/ 2017

### 3.1 Summarized Financial Statements

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

**Table 3** – Balance sheet as of 31 December 2017, 30 September 2017, 30 June 2017 and 31 March 2017.

(All amounts in EUR '000)	31.12.2017	30.09.2017	30.06.2017	31.03.2017
<b>ASSETS</b>				
<b>Non-current Assets</b>				
Investment property	41,892	35,262	35,262	35,348
Cost for acquisition of fixed assets	73	851	440	2
Plant and equipment	5	4	2	2
Intangible assets	4	5	-	-
<b>Total Non-current Assets</b>	<b>41,972</b>	<b>36,122</b>	<b>35,704</b>	<b>35,352</b>
<b>Current Assets</b>				
Investment property held for sale	782	4,123	4,129	4,128
VAT receivable	-	26	49	-
Trade receivable	74	117	79	75
Cash and cash equivalents	1,744	4,665	4,840	4,443
Other current assets	2	24	19	19
Deferred expenses	10	11	8	13
<b>Total Current Assets</b>	<b>2,612</b>	<b>8,965</b>	<b>9,124</b>	<b>8,678</b>
<b>TOTAL ASSETS</b>	<b>44,584</b>	<b>45,087</b>	<b>44,828</b>	<b>44,030</b>
<b>EQUITY AND LIABILITIES</b>				
<b>Equity</b>				
Share capital	30,908	30,908	30,908	30,908
Share premium	3,244	3,244	3,244	3,244
Retained earnings	4,113	2,899	2,465	2,013
<b>Total equity</b>	<b>38,265</b>	<b>37,051</b>	<b>36,617</b>	<b>36,165</b>
<b>Non-current liabilities</b>				
Interest bearing loan	4,606	4,752	4,897	4,421
Other long-term liability	-	-	-	6
<b>Total Non-current liabilities</b>	<b>4,606</b>	<b>4,752</b>	<b>4,897</b>	<b>4,427</b>
<b>Current liabilities</b>				
Current part of non-current liabilities	585	580	576	680
VAT payable	-	14	7	60
Payables to management company	573	558	446	389
Payables to the personnel and SIC	2	1	1	1
Provisions for dividends due	319	-	760	760
Advance payments	-	1,900	1,300	1,300
Trade and Other current liabilities	235	231	224	248
<b>Total Current liabilities</b>	<b>1,714</b>	<b>3,284</b>	<b>3,314</b>	<b>3,438</b>
<b>Total liabilities</b>	<b>6,320</b>	<b>8,036</b>	<b>8,211</b>	<b>7,865</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>44,584</b>	<b>45,087</b>	<b>44,828</b>	<b>44,030</b>

**Table 4 – P&L statement by quarters and accumulated since the beginning of 2017**

(All amounts in EUR '000)	Q4 - 2017	Q3 - 2017	Q2 - 2017	Q1 - 2017	2017
Income from sale of assets	3,368	7	-	-	3,375
Rental income	804	801	781	772	3,158
Revenue from interest and other financial revenues	-	-	-	1	1
Other Income	1,225	-	2	7	1,233
<b>Total Revenue</b>	<b>5,397</b>	<b>808</b>	<b>782</b>	<b>779</b>	<b>7,766</b>
Value of sold assets	(3,367)	(7)	-	-	(3,374)
Interest expense	(43)	(46)	(48)	(41)	(178)
Management fees	(146)	(138)	(134)	(133)	(551)
Materials expense	(5)	(28)	(1)	(3)	(36)
BOD and employees salaries expense	(30)	(19)	(19)	(19)	(87)
Other expenses	(273)	(137)	(129)	(160)	(699)
<b>Total expenses</b>	<b>(3,864)</b>	<b>(374)</b>	<b>(331)</b>	<b>(357)</b>	<b>(4,926)</b>
<b>Profit/(loss) for the period</b>	<b>1,533</b>	<b>434</b>	<b>451</b>	<b>422</b>	<b>2,840</b>
<b>Adjusted weighted average number of shares in the quarter (in thousands)</b>	<b>20,150</b>	<b>20,150</b>	<b>20,150</b>	<b>60,450</b>	<b>20,150</b>
<b>Earnings per share - basic and diluted</b>	<b>0.076</b>	<b>0.022</b>	<b>0.022</b>	<b>0.007</b>	<b>0.141</b>

### 3.2 Liquidity

**Table 5 – Liquidity indicators for BREF as of 31.12.2017, 30.09.2017, 30.06.2017, and 31.03.2017**

Liquidity Ratios	31.12.2017	30.09.2017	30.06.2017	31.03.2017
Current ratio	1.52	2.73	2.75	2.52
Quick ratio	1.07	1.47	1.51	1.32
Cash ratio	1.02	1.42	1.46	1.29

In the past quarter, 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 1.52, 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 improve the Company's liquidity.

#### ■ Internal Sources of Liquidity

During the quarter internal sources of liquidity registered 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 decrease in the funds due to the purchase of the new property.

### Short-term (current) assets

**Table 5A** – Current assets as of 31.12.2017, 30.09.2017, 30.09.2017 and 31.03.2017.

Liquidity sources	31.12.2017	%	30.09.2017	%	30.06.2017	31.03.2017
<b>Current Assets</b>						
Investment property held for sale	782	29.93%	4,123	45.99%	4,129	4,128
VAT receivable	0	0.00%	26	0.29%	49	0
Trade receivable	74	2.84%	117	1.30%	79	75
Cash and cash equivalents	1,744	66.76%	4,665	52.03%	4,840	4,443
Other current assets	2	0.08%	24	0.27%	19	19
Deferred expenses	10	0.39%	11	0.13%	8	13
<b>Total Current Assets</b>	<b>2,612</b>	<b>100%</b>	<b>8,965</b>	<b>100%</b>	<b>9,124</b>	<b>8,678</b>

In the past quarter, 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 3.4 times and at the end of the period, it reached EUR 2,612 thousand. The overall structure of current assets is retained, with cash taking up the largest share of 66.76%. 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, with an increase in rental income, the cash available to the Company is also expected to increase.

Second, with a share of 29.93%, 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" in Borovets. In the next reporting period, unless there are new sales of properties, the article is expected to retain its value.

On the next place are the trade receivables and interest which were with share of 2.84%. They reduce their amount due to repaid by the tenants' payables to the Company during the period. No significant change in receivables is expected in the following quarter.

The decrease over the past quarter also notes the item "Other" receivables. The main entry under this item was the advanced payments for property taxes. Expectations in the next year are that if advance payments of real estate taxes are made, this article will again mark an increase in the accounting year.

The total amount of current assets during the next reporting periods shall mainly depend on the generated incomes from leases and implemented property sales.

### ○ Short-term (current) liabilities

**Table 5B** – Current liabilities as of 31.12.2017, 30.09.2017, 30.06.2017, and 31.03.2017.

Liquidity sources	31.12.2017	%	30.09.2017	%	30.06.2017	31.03.2017
<b>Current liabilities</b>						
Current part of non-current liabilities	585	34.13%	580	17.67%	576	680
VAT payable	0	0.00%	14	0.44%	7	60
Payables to management company	573	33.41%	558	16.99%	446	389
Payables to the personnel and SIC	2	0.12%	1	0.02%	1	1
Provisions for dividends due	319	18.62%	0	0.00%	760	760
Advance payments	0	0.00%	1,900	57.85%	1,300	1,300
Trade and Other current liabilities	235	13.72%	231	7.04%	224	248
<b>Total Current Liabilities</b>	<b>1,714</b>	<b>100%</b>	<b>3,284</b>	<b>100%</b>	<b>3,314</b>	<b>3,438</b>

Over the past quarter the total amount of short-term liabilities decreased by 47.81% and at the end of the period, it reached EUR 1,714 thousand. 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 significant change in the structure of the liabilities, with the outstanding payments for the upcoming one year of the Company's loan being the first with a share of 34.13%. The reported change is due to the increasing 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.

Secondly, 33.41% went to the managing company. Their value increases to EUR 573 thousand, as the basis of this change are the unpaid management fee liabilities from previous periods. Another major part of the obligations in this article are those related to the construction of the Kambanite Office Building and, respectively, the detained funds of the builders, which serve as a guarantee of good performance. Such retained funds are expected in the future under the new investment project of the Company.

The next position, with a share of 18.62%, was held by the provisions for dividends for the 2017 financial year within the amount of EUR 319 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.

The trade and other liabilities preserved their amount, with their share in the current assets amounting to 13.72%. The main records contained in this item pertained to the Company's liabilities for received guarantees under lease agreements or rent paid in advance, which shall also preserve their amount during the next reporting periods.

Substantial changes in the current liabilities are not expected during the next quarter, with the possibility for changes setting in primarily in the commercial liabilities and liabilities pertaining to due taxes.

#### ■ External Sources of Liquidity

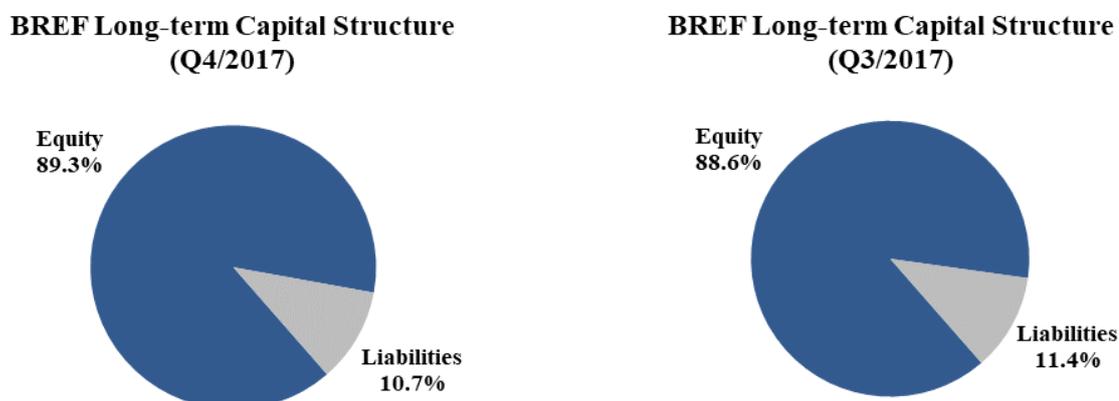
The external sources of liquidity are the equity and the investment loans as described in detail in section 3.3. Capital resources.

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 December, 2017 the total long term capital of the Company, both equity and borrowed marked an increase of 2.55% up to EUR 42,870 thousands. This change was due the realized financial result for the last reporting period, leading to increase of the equity. During the past quarter the structure of the long-term capital has change-the share of borrowed fund recorded a decrease from 11.4% in the end of the previous quarter to 10.7% at the end of the 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. 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	31.12.2017	30.09.2017	30.06.2017	31.03.2017
Debt-to-Equity	0.17	0.22	0.22	0.22
Non-Current Assets-to-Equity ratio	1.10	0.97	0.98	0.98
Long-term-Debt-to-Non-Current-Asset ratio	0.11	0.13	0.14	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 December 2017, the equity of BREF is EUR 38,265 thousand, which represents an increase of 3.28% as compared to the prior quarter. The recorded increase is wholly due to the registered by the Fund profit for the period which is reduced by the allocated dividend provision for 2017

**Table 7 – Total equity as of 31.12.2017, 30.09.2017, 30.06.2017, and 31.03.2017**

Equity (in thousands)	31.12.2017	30.09.2017	30.06.2017	31.03.2017	2017
Share capital	30,908	30,908	30,908	30,908	30,908
Share premium	3,244	3,244	3,244	3,244	3,244
Retained earnings	4,113	2,899	2,465	2,013	1,592
<b>Total equity</b>	<b>38,265</b>	<b>37,051</b>	<b>36,617</b>	<b>36,165</b>	<b>35,743</b>

## ■ External financing

In 2017 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%. The grace period for the principal was until the end of 2016, and so its repayment started in 2017. The utilisation of the funds was in tranches, in compliance with the construction costs. In the fourth quarter of 2017, the Company has regularly serviced the loan payments due. The outstanding principal amount as of the period was BGN 10.17 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 to the development of the architecture and the technical projects of the new building and the organizing 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 36-37 million excl. the construction right price. To finance the project, the Company intends to make capital increasing 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 an extension of the access system in the building.

## 3.4 Asset structure

The amount of the BREF assets by the end of the fourth quarter decreased by 1.11% to EUR 44,584 thousand, as compared to the end of the prior quarter, when the amount of the assets was EUR 45,087 thousand. The recorded decrease was mainly as a result of Mladost 4 properties sale, the advancement contribution of which already have been received earlier this year and the assets were increased. Over the next reporting period it is expected the asset amount to increase again because of the additional rental income. Substantial change will be observed after successful capital increasing of the Company or after provision of external financing for the investment program of BREF.

*Table 6 – Asset structure*

Asset structure (thousand EUR)	31.12.2017	% share	30.09.2017	% share	30.06.2017	31.03.2017
<b>Non-current assets incl.</b>	<b>41,972</b>	<b>94.14%</b>	<b>36,122</b>	<b>80.12%</b>	<b>35,704</b>	<b>35,352</b>
- total property	41,892	93.96%	35,262	78.21%	35,262	35,348
- cost for acquisition of fixed assets	73	0.16%	851	1.89%	440	2
<b>Current assets incl.</b>	<b>2,612</b>	<b>5.86%</b>	<b>8,965</b>	<b>19.88%</b>	<b>9,124</b>	<b>8,678</b>
- VAT receivable	0	0.00%	26	0.06%	49	0
- trade receivable	74	0.17%	117	0.26%	79	75
- investment property held for sale	782	1.75%	4,123	9.14%	4,129	4,128
- cash and cash equivalents	1,744	3.91%	4,665	10.35%	4,840	4,443
<b>Total assets</b>	<b>44,584</b>	<b>100%</b>	<b>45,087</b>	<b>100%</b>	<b>44,828</b>	<b>44,030</b>

After the executed revaluations, sales and purchases of properties during the past quarter, the structure of the assets underwent more substantial changes compared to the past reporting period. An increase of the fixed assets was observed, the foundation of which was based upon the purchasing of the construction right in Sofia Tech Park and the executed in the end of the year revaluations of properties. At the same time a substantial reduction of the current assets was observed, resulting from the writing off the sold properties and expending the pecuniary funds for the purchasing of other properties. As a final result the share of the fixed assets increased to 94.14 %, and respectively the share of the current assets dropped to 5.86%.

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.

## 3.5 Financial Results

The activity of the Company in the fourth quarter of 2017 was mainly focused on the management of revenue-generating projects for the Company, the purchase and sale of real estate. An addition impact to the results of the company was because of the reported net revenue by annual property revaluation.

## Revenue from operations

In the reported quarter the reported revenues amounted to EUR 5,397 thousand, an increase of 5,6 times compared to the previous quarter. The main reason for this increase was the reported 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 by quarters and accumulated since the beginning of 2017.

Revenue (in thousand EUR)	Q4 - 2017	Q3 - 2017	Q2 - 2017	Q1 - 2017	2017
Income from sale of assets	3,368	7	-	-	3,375
Rental income	804	801	781	772	3,158
Revenue from interest and other financial revenues	-	-	-	1	1
Other Income	1,225	-	2	7	1,233
<b>Total revenue</b>	<b>5,397</b>	<b>808</b>	<b>782</b>	<b>779</b>	<b>7,766</b>

The greatest share, or 62.40 %, during the past quarter was the income from sales. Its amount reached EUR 3,368 thousand. This item contained a record of the sale of two of the regulated properties located in Mladost 4, preliminary deals, for which were concluded in the end of the previous year. After the executed advance payments during the year in the end of the quarter there was a notary certification and final payment of the two sales, representing grounds for the Company to acknowledge the respective income in its report. During the next reporting periods sales of other properties were currently not planned.

Next came the proceeds from the article Other income, with the amount of EUR 1,225 thousand. There was recorded the net result of property revaluations at the end of the year. This action is one time, and in the next report, it will not have a record.

The rental income, which in the previous reporting periods was our main revenue, during this quarter is with a share of 14.90%. Its amount reaches EUR 804 thousand, an increase of 0.38% compared to the previous quarter. The reported increase is due entirely to the reported new rents from the Kambanite Office Building, and in particular revenue from the additional rent of Konica Minolta. Other revenues recorded in this article are rental income from Mr.Bricolage stores in Sofia and Varna and rental income from Building 1 in the BPS. In the next reporting period, an increase in rental income is expected, which will result in revenues from additional leases in 2017 office premises of Adecco in the Kambanite Green Offices and updated rental payments under the lease agreement of Atos IT Solutions and services EOOD in Building 1 in BPS.

Expectations for the next quarter are total revenue to decline significantly due to the lack of new sales and real estate revaluation, but to increase rental income.

## ■ Expenses from operations

During the past quarter the total expenses of BREF increased by 9 times, reaching EUR 3,864 thousand, the basis of which increases are the written costs of properties sold during the period.

**Table 10** – Realized expenses by quarters and accumulated since the beginning of 2017.

Expenses (in thousand EUR)	Q4 - 2017	Q3 - 2017	Q2 - 2017	Q1 - 2017	2017
Value of sold assets	(3,367)	(7)	-	-	(3,374)
Interest expense	(43)	(46)	(48)	(41)	(178)
Management fees	(146)	(138)	(134)	(133)	(551)
Materials expense	(5)	(28)	(1)	(3)	(36)
BOD and employees salaries expense	(30)	(19)	(19)	(19)	(87)
Other expenses	(273)	(137)	(129)	(160)	(699)
<b>Total expenses</b>	<b>(3,864)</b>	<b>(374)</b>	<b>(331)</b>	<b>(357)</b>	<b>(4,926)</b>

During the fourth quarter of 2017 with the greatest share of 87.14% of the expenses are the carrying amount of the sold properties. This expenditure was of single time only nature in the event of sales and during the next reporting periods there shall be no new deals, to be recorded in this item.

In the second position with a share of 7.07% of the expenditures is the item “Other expenses”. The recorded almost twofold increase was due to the realization of additional expenditures in connection with the deals for purchasing and sales of properties. These expenditures were of a single time only nature and in the event of lacking, sales or purchases cannot be expressed in terms of value. Other expenditures recorded in this item are expenditures for taxes and fees in connection with real estate properties. Other large expenditures under this account are expenditures for preformed external services in connection with the management and maintenance of properties, for banking charges and other administrative expenditures. During the next reporting periods, it is expected that the amount of this item shall return to its previous levels and to remain within these limits in the event of lacking new property deals.

At the next position, with a share of 3.77% of the expenditures are the fee of the managing company. The expenditure maintains the level recorded during the past quarter and the fluctuations at the end of the year are connected to the annual equalization of the fee. During the next quarters, changes are not envisioned in the Remunerations of the managing company.

With a share of 1.12% recording took place of the interest expenses, including the paid and accrued interests under the Company’s loan. This account marked a reduction, which was due to the declining principal under the new loan of the Fund. During the next reporting period it is expected that the interest expenses shall continue to decline, along with the reduction of the liabilities under the loan.

The principal factors, which shall lead to the reduction of the expenditures during the next quarter pertains to the lack of recorded value of sold properties and the lack of expenditures accompanying the property. A rise of some expenditure could be observed as a result of the implementation of the new project in Sofia Tech Park.

## ■ Financial result

During Q4 of 2017, the Company realized a profit within the amount of EUR 1,533 thousands, and the main contribution for the recorded result pertained to the recorded net positive income from the revaluations of properties. On the other hand, the reflection over the final accounting result of the implemented deals for purchasing and sales of properties had minimal effect, because their balance values already reflected the respective market prices. During the next reporting periods, in the event of lacking revaluation of properties it is expected for the Company’s profit to drop down to the average values recorded during the past quarters.

Regarding the adjusted financial result for distribution as dividend, the greatest impact was attributed to the deal pertaining to the sale of properties in Mladost 4, which negative correction

was within the amount of EUR 1,267 thousands and the correction from the net revaluations within the amount of EUR 1,213 thousands.

**Table 11** – Financial result by quarters and accumulated since the beginning of 2017.

Financial Result	Q4 - 2017	Q3 - 2017	Q2 - 2017	Q1 -2017	2017
Revenues	5,397	808	782	779	7,766
Expences	(3,864)	(374)	(331)	(357)	(4,926)
<b>Net profit/loss for the period</b>	<b>1,533</b>	<b>434</b>	<b>451</b>	<b>422</b>	<b>2,840</b>

The accounting profit divided by the adjusted average number of shares during the period gives the earning per share (EPS) of EUR 0.076.

Results per share (EUR '000)	2017 **	2016	2015	2014
Earnings	2,840	2,147	1,027	(1,893)
Earnings per share (EPS)	0.141	0.107	0.051	(0.094)
Net asset value (NAV)	38,265	35,743	34,357	34,152
Adjusted common shares outstanding	20,150	20,150	20,150	20,150
NAV per share	1.899	1.774	1.705	1.695
Dividend per share	0.0158	0.0377	0.0408	0.0000
Share fair value*	1.915	1.812	1.746	1.695

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

\*\* The net value of assets for 2017 was based upon an unaudited report, and for the period 2014-2016 in line with audited reports

The NAV per share, according to the unaudited statement of the Company, increased from EUR 1,774 per share at the end of 2016 to BGN 1,899 per share at the end of 2017, 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 December 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.

***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.

The Company will be exposed to the above-mentioned main risks and uncertainties during the current 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 last three months of 2017, the share price of Bulgarian Real Estate Fund REIT dropped 4.5% after rising in the previous two quarters. Since the beginning of the year, the company's shares have lost 1.9% of its market value.

After the particularly strong growth in 2016, the sector of the REIT's showed a moderate performance in 2017. In the last three months of the year, the stock index BGREIT, which monitors the performance of the sector, reported a 1.06% growth as the level at the end of the quarter reached 116.10 points. For the whole 2017, the index grew by 7.39%. 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 a number of deals, and in terms of turnover.

The Bulgarian capital market as a whole enjoyed a successful 2017, regardless of drops experienced by the main indices during Q4 of the year. During the period October – December the main stock exchange index SOFIX dropped down to 677.45 points (as of 29.12.2017), losing 1.55% of its value. Nevertheless, the index ended the year by an increase of 15.52% for the past 12 months. The extended index BGBX 40 ended the quarter at a level of 132.00 points, recording a drop of 1.74% on a quarterly basis, but a growth of 18.60% - per annual basis.

The positive tendencies also led to a substantial increase in trade at BSE - Sofia. During the past year the turnover on the regulated market of BSE - Sofia grew by 69.7% to BGN 705.85 million. For Q4 of 2017 alone the turnover on the Main market of BSE - Sofia rose by 13.1% per annual basis.

The principal risk factors facing the Bulgarian economy and more specifically the public companies on the capital market pertain to the potential slowdown of economic growth in Bulgaria and the EU – the country's principal trading partner, as well as the insufficient short term and long term foreign investments in the country, and more particularly in BSE - Sofia.

Summarized trading details for the period 01.01.2017 - 31.12.2017:

- Opening Price – BGN 2.197 (03 January 2017)
- Closing Price – BGN 2.224 (29 December 2017)
- Highest Price – BGN 2.434 (11 August 2017г.)
- 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 Capitalization (31.12.2017) – BGN 44,813,600 (EUR 22,912,830)

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

