

“Bulgarian Real Estate Fund”

Third Quarter Summary Report



30 October 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 (30.09.2018)	Shares Outstanding
Bulgarian Stock Exchange Sofia	5BU (BREF)	EUR 19,780,860	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 first half of the year, there were significant changes in the Company's portfolio. It was caused mostly because of the capital increase which is reflected in the cash.

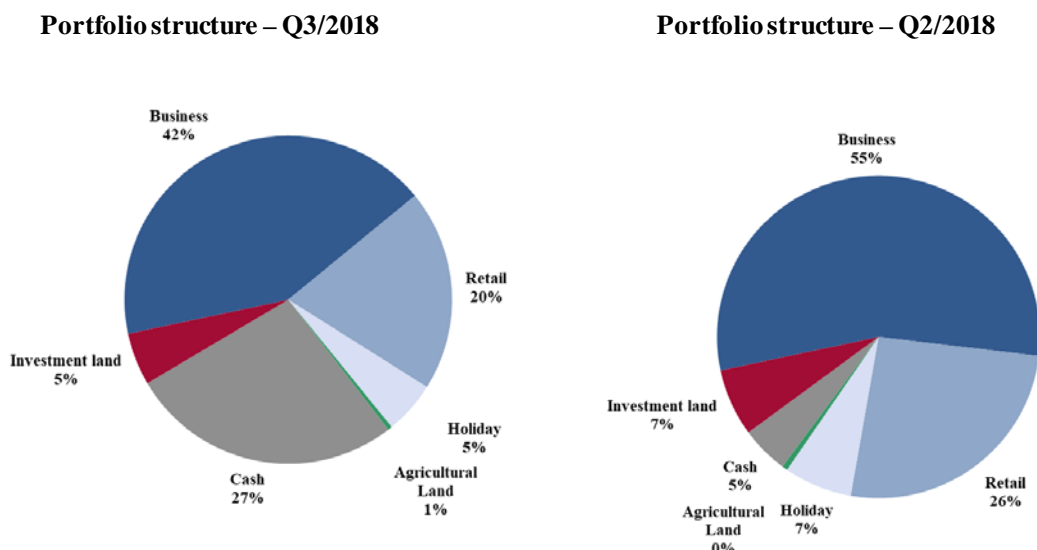
At the end of the period the business properties share is 42%. The trade properties were 26% and the investment and vacation properties had share of 5% each. The expectations for the next reporting periods, with the start of the construction activity of the new development project and the envisaged new investments in it, are the amount of the business properties to continue to increase at the expense of the cash.

The key highlights during the past quarter were as follows:

- Design of the new office building in Sofia Tech Park and submitting an application for construction right;
- Preparation of construction auctions for the development of office building in Sofia Tech Park;
- Operational management of the Kambanite Office Building;
- Handover of leased areas to Survey Sampling Bulgaria EOOD in Kambanite Office Building;
- Operational management and conducting of capital repairs in Building 1 in Business Park Sofia;
- Operational management of the properties leased to Mr.Bricolage and renovation of the roof and installations in the store in Sofia;
- Organization of the Fund's capital increase.

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

Figure 1. Investment allocation in types of market sector



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 30.09.2018	Future investments
Current projects				
"Mr. Bricolage" - sale and leaseback	operational management	10,437	11,638	
Agricultural land	operational management	58	249	
Apartment house "Sequoia 2" - Borovetz	for sale	1,671	761	
Office building 1 - Business Park Sofia	operational management	7,443	8,670	26
Kambanite Office Building	operational management	8,963	11,077	
Office building Sofia Tech Park	in construction	5,226	5,092	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		41,365	42,793	26

* 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 the construction stage. 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 third quarter of the year the lease agreements were regularly serviced. During this year was carried out replacement of the roof insulation and renovation of some installations in Sofia property.

2.3 Project – Agricultural Land

The total agricultural land owned by BREF as of the end of the third quarter of the year 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 reporting period an apartment was sold. As of the end of September, 2018 the total quantity of sold apartments was eleven and one garage. The sales campaign for the remaining properties in the building continues. In September another preliminary agreement was signed for the sale of another apartment under which contract was received an advanced payment.

Project parameters:

Apartment house "Sequoia 2" - Borovetz	
Plot area	512 sq.m
Total built-up area	3,527 sq.m
Apartments left for sale	25
Current Investment	EUR 1.67 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. As of the end of September 2018 the company’s properties have a 93.92% occupancy rate. During the past quarter one of the offices on the ground floor was freed. As of the end of September a new lease agreement with CC Smart Solutions was signed for this property. The total area under this contract is 444.30 sq.m. along with six parking spots in the underground parking of the building. Thus, once the office is handed over the occupancy of the building will again be 100%.

Overhauling the waterproofing of the roof of the building was completed in the course of the third quarter and has started the renovation of the foyer of the building.

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 last 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.

As of the end of September the building was leased to 89.42%. During the reporting period the signed rental agreement with Survey Sampling Bulgaria EOOD took effect. The contract is for 5 years and the total leased area is 912.76 sq.m. Other main tenants are ModisBulgaria 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 160, of which 51 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 EUR 5.62 million with Eurobank Bulgaria AD. By the end of September 2018, the outstanding principal amounts to EUR 4.79 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	89.42%

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 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. During the last quarter the company submitted the necessary documents for obtaining a construction right. At this point the company still didn’t get construction right, but the expectations are that the company will receive it by the end of November. After that the actual construction of the building will begin.

Over the past quarter the Company has prepared some of the tenders for the construction works, with which will start the development of the building.

According to the preliminary estimates of the Company, the expected value of the new building's construction is about EUR 33 million. Initially the financing of the new project will be realized from the 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 has been planned to 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. 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 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 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 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. 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 Q3/ 2018

3.1 Summarized Financial Statements

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

Table 3 – Balance sheet as of September 30th 2018, June 30th 2018 and 31 March 2018.

(All amounts in EUR '000)	30.09.2018	30.06.2018	31.03.2018
ASSETS			
Non-current Assets			
Investment property	41,758	41,758	41,758
Cost for acquisition of fixed assets	274	141	99
Plant and equipment	3	4	4
Intangible assets	2	2	3
Total Non-current Assets	42,037	41,905	41,864
Current Assets			
Investment property held for sale	761	782	782
VAT receivable	54	108	-
Trade receivable	197	177	162
Cash and cash equivalents	15,782	2,135	2,012
Other current assets	1	2	2
Deferred expenses	22	23	12
Total Current Assets	16,818	3,226	2,969
TOTAL ASSETS	58,855	45,131	44,833
EQUITY AND LIABILITIES			
Equity			
Share capital	10,303	10,303	10,303
Share premium	37,772	23,849	23,849
Retained earnings	5,464	4,946	4,491
Total equity	53,538	39,097	38,643
Non-current liabilities			
Interest bearing loan	4,161	4,310	4,458
Other long-term liability	-	-	-
Total Non-current liabilities	4,161	4,310	4,458
Current liabilities			
Current part of non-current liabilities	597	593	589
VAT payable	18	9	72
Payables to management company	191	581	536
Payables to the personnel and SIC	1	1	-
Provisions for dividends due	-	351	351
Trade and Other current liabilities	349	189	184
Total Current liabilities	1,156	1,723	1,732
Total liabilities	5,316	6,033	6,190
TOTAL EQUITY AND LIABILITIES	58,855	45,131	44,833

Table 4 – P&L statement for Q1, Q2, Q3 and accumulated from the beginning of 2018

(All amounts in EUR '000)	Q3 - 2018	Q2 - 2018	Q1 - 2018	2018
Income from sale of assets	21	-	-	21
Rental income	853	853	844	2,550
Other Income	1	-	6	6
Total Revenue	875	853	850	2,578
Value of sold assets	(21)	-	-	(21)
Interest expense	(39)	(40)	(41)	(121)
Management fees	(147)	(145)	(144)	(435)
Materials expense	(2)	(1)	(2)	(4)
BOD and employees salaries expense	(19)	(19)	(19)	(58)
Other expenses	(129)	(194)	(135)	(459)
Total expenses	(357)	(398)	(341)	(1,097)
Profit/(loss) for the period	518	455	509	1,481
Adjusted weighted average number of shares in the quarter (in thousands)	20,150	20,150	20,150	20,150
Earnings per share - basic and diluted	0.026	0.023	0.025	0.074

After the capital increase, the total number of the Company's shares will be increased to 34,642 thousand, taking the profit for the first nine months of 2018 to the new number of shares yielding 1 share of 0,042 EUR.

3.2 Liquidity

Table 5 – Liquidity indicators for BREF as of 30.09.2018, 30.06.2018 and 31.03.2018

Liquidity Ratios	30.09.2018	30.06.2018	31.03.2018
Current ratio	14.55	1.87	1.71
Quick ratio	13.90	1.42	1.26
Cash ratio	13.66	1.24	1.16

In the past quarter, the liquidity ratios registered significant increase. The main change comes from the increase in cash which is a result of the company's capital increase. The current liquidity ratio had reached 14.55, and quick and cash liquidity ratios had increase to 13.90 and 13.66 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 reporting period the internal sources of liquidity registered an increase of the short-term assets, and a decrease in the short-term liabilities. The basis of these changes is the cash amount, a result of the capital increase, in the assets and the amount of dividends paid in the liabilities.

Short-term (current) assets
Table 5A – Current assets as of 30.09.2018, 30.06.2018 and 31.03.2018.

Liquidity sources	30.09.2018	%	30.06.2018	%	31.03.2018	%
Current Assets						
Investment property held for sale	761	4.52%	782	24.23%	782	26.33%
Trade receivable	197	1.17%	177	5.48%	162	5.44%
Cash and cash equivalents	15,782	93.84%	2,135	66.16%	2,012	67.77%
Other current assets	1	0.01%	2	0.05%	2	0.05%
Deferred expenses	22	0.13%	23	0.71%	12	0.41%
Total Current Assets	16,818	100%	3,226	100%	2,970	100%

The total amount of the current assets of the Fund increased almost 5 times and at the end of the period it reached EUR 16,818 thousand. The basis for this change is the change in the value of the cash that marks growth due to the capital increase of the company. The overall structure of current assets was retained, with the share of cash and cash equivalents remaining at 93.84%. The main reason for their increase, as mentioned above, is the change in the capital, but until the entry of the alteration, EUR 14,078 thousand will remain blocked in the accrual account of the company. 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.

On second place with a share of 4.52% were the investment properties, which value remained 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 and the reduction is due to apartment sold during the period. In the next year, after finalizing the sale of another apartment, the item is expected to decrease.

Next, with 1.17%, were trade receivables and interest. They have increased their amount as a result of advanced payment made by CC Smart Solutions EOOD according to the signed leased agreement. No significant change in receivables is expected in the following reporting period.

The total amount of current assets in the subsequent reporting periods will mainly depend on realized rental income, and the realized expenses for the construction of the new building in Sofia Tech Park.

 ○ **Short-term (current) liabilities**
Table 5B – Current liabilities as of 30.09.2018, 30.06.2018 and 31.03.2018

Liquidity sources	30.09.2018	%	30.06.2018	%	31.03.2018
Current liabilities					
Current part of non-current liabilities	597	51.68%	593	34.39%	589
VAT payable	18	1.59%	9	0.53%	72
Payables to management company	191	16.50%	581	33.71%	536
Payables to the personnel and SIC	1	0.04%	1	0.03%	0
Provisions for dividends due	0	0.00%	351	20.39%	351
Trade and Other current liabilities	349	30.18%	189	10.95%	184
Total Current Liabilities	1,156	100%	1,723	100%	1,732

Over the past quarter the total amount of short-term liabilities registered a decrease of 32.94% compared to the previous reporting period and at 30.09.2018 reached EUR 1,156 thousand. The main reasons for this change are the fees paid during the period to the management company as well as the dividends paid to the shareholders for 2017. The overall structure of current liabilities is changed, with short-term borrowings and accrued interest thereon holding first position with 51.61%. Their value amounted to EUR 597 thousand, the reported rise being 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 rise as the current principal is increased.

Next, with share of 30.18% in the short-term liabilities are the Company's trade and other payables. The reported increase is due to received deposit under the new lease agreement in Building 1 in Business Park Sofia and the accrued but still unpaid, administrative costs of the capital increase. 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. After the registration of the capital increase by the Commercial register and paying the accrued expenses for it, the total amount of trade payables is expected to decrease.

On third place with 16.50% are payables to the managing company which have decreased compared to the previous period due to payed old liabilities. 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 during the current period are 0, as dividends paid to the shareholders for the financial year 2017 being written off. During the next reporting period in this article will reflect the new accruals of 2018 dividend.

Substantial changes in current liabilities are expected in the next quarter, when the dividend due for 2018 will be accrued.

■ 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, along with the increased capital, the Fund plans at the next stage to take new borrowed funds.

3.3 Capital resources

At the end of September 2018 the total long-term capital, both equity and borrowed, marked an increase of 32.92% up to EUR 57,699 thousands. This change was due the successfully completed public offering of shares. Of the proposed 20 150 000 ordinary dematerialized shares with a nominal value of BGN 1 and issue value of BGN 1.90, a total of 14 491 925 shares were subscribed and paid in real terms and paid into the accumulation account BGN 27 534 657.50. The Company's capital increase is still expected to be entered in the Commercial Register, which has caused the raised funds to be blocked on the Company's accumulation account. During the past period the structure of the long-term capital has change, as the share of borrowed fund recorded a decrease from 9.9% at the end of June 2018 to 7.2 % at the end of September 2018.

During the next reporting periods, along with the realization of new financial results it is expected for the share of the own capital to continue increasing. The ratio between the own and attracted funds for the past three months was specified in the figures provided hereinafter below.

Figure 2: Allocation between equity and external financing

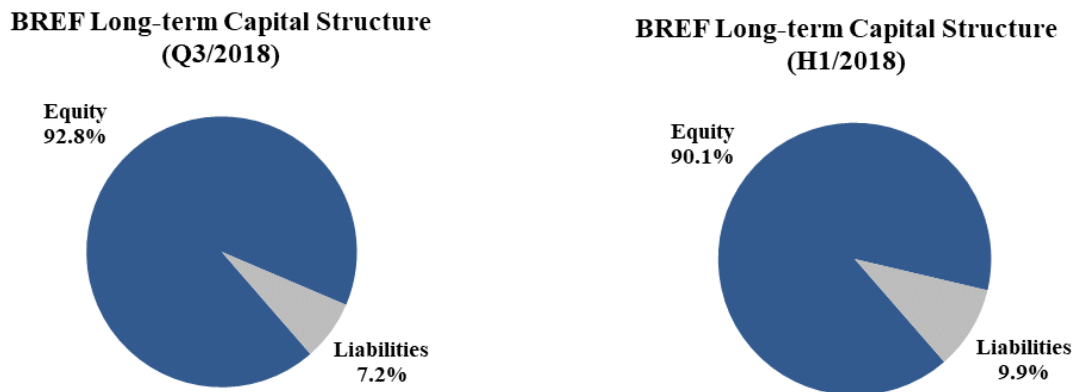


Table 6 – Leverage ratios

Leverage ratios	30.09.2018	30.06.2018	31.03.2018
Debt-to-Equity	0.10	0.15	0.16
Non-Current Assets-to-Equity ratio	0.79	1.07	1.08
Long-term-Debt-to-Non-Current-Asset ratio	0.10	0.10	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 September 2018, the equity of BREF is EUR 53,538 thousand, which represents an increase of 36.94% as compared to the prior reporting period. The recorded increase is wholly due to the successful capital increase of the company, which is still awaiting entry in the Commercial Register. As of the reporting date, the funds raised from the capital increase are shown in full in the premium reserves. After the registration of the increase in the Commercial Register, the amount of the share capital will be adjusted accordingly by BGN 14 491 925.

Table 7 – Total equity as of 30.06.2018 and 31.12.2017

Equity (in thousands)	30.09.2018	30.06.2018	31.03.2018
Share capital	10,303	10,303	10,303
Share premium	37,772	23,849	23,849
Retained earnings	5,464	4,946	4,491
Total equity	53,538	39,097	38,643

As a result of the events mentioned above, there is also a change in the structure of equity. As of the end of the reporting period, the share of premium reserves increased, which will change when the newly issued shares are reported in the Share capital article.

External financing

In the third 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 Kampanite. The interest due on the loan is based on 3-month SOFIBOR + 3.1%. After the change as of 01.07.2018 and the dropping of SOFIBOR, a reference interest rate PRIME is used for the calculation of the loan obligations. In the third quarter of 2018, the Company has regularly paid the due contributions on the investment loan. The outstanding principal amount as of the end of the period was EUR 4.77 million.

■ Capital expenses during the next periods under review

After the acquisition of the construction rights in Sofia Tech Park and the development of the architecture, the investment program of the Company during the next reporting periods will be mainly focused on the project implementation. After the technical 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 will use the capital raised during the year and at next stage will use borrowed capital.

Under the other projects, capital spending will be made for Building 1 in Business Park Sofia, where the lobby is undergoing renovation and a replacement of the roof insulation was performed.

3.4 Asset structure

The amount of the BREF assets by the end of the third quarter increased by 30.51% to EUR 58,855 thousand, as compared to the end of the prior period, when the amount of the assets was EUR 45,131 thousand. The recorded rise was mainly as a result of cash increase, as a result of the capital increase of the company. In the next reporting period, with the realization of additional rental income, the assets are expected to continue to grow, as a more substantial change will be observed with securing external financing for the BREF investment program.

Table 6 – Asset structure

Asset structure (thousand EUR)	30.09.2018	% share	30.06.2018	% share	31.03.2018	% share
Non-current assets incl.	42,037	71.42%	41,905	92.85%	41,864	93.38%
- total property	41,758	70.95%	41,758	92.53%	41,758	93.14%
- cost for acquisition of fixed assets	274	0.47%	141	0.31%	99	0.22%
Current assets incl.	16,818	28.58%	3,226	7.15%	2,969	6.62%
- VAT receivable	54	0.09%	108	0.24%	0	0.00%
- trade receivable	197	0.34%	177	0.39%	162	0.36%
- investment property held for sale	761	1.29%	782	1.73%	782	1.74%
- cash and cash equivalents	15,782	26.82%	2,135	4.73%	2,012	4.49%
Total assets	58,855	100%	45,131	100%	44,833	100%

In the third quarter of 2018, the structure of the Company's assets underwent substantial changes compared to the previous reporting period. There is increase in the share of short-term assets at the expense of long-term assets. The change comes as a result of the increases in cash and trade receivables as a result of the successful capital increase.

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

Revenue from operations

In the period under review the reported revenues amounted to EUR 875 thousand, a 2.64% increase compared to the previous quarter. The main reason for this increase is the income from the sale of property.

Table 9 – Realized revenues in Q1, Q2, Q3 and accumulated from the beginning of 2018

Revenue (in thousand EUR)	Q3 - 2018	Q2 - 2018	Q1 - 2018	2018
Income from sale of assets	21	-	-	21
Rental income	853	853	844	2,550
Revenue from interest and other financial revenues	-	-	-	-
Other financial income	-	-	-	-
Other Income	1	-	6	6
Total revenue	875	853	850	2,578

The biggest share of 97.49 % of the revenues during the third quarter of the year was that of the rental income. Its amount reached EUR 853 thousand which is 0.60% increase compared to the previous quarter. The reported increase is mainly due to the updated rental payments under the lease agreements.

The property sales revenue reported in the current period results from the sale of a property in the residential building "Sequoia 2" Borovets as such are planned for the next year in connection with the signed preliminary contract for sale of another apartment.

A change is also reported in the Other income item, which reflects the income from the management of the residential building "Sequoia 2" in Borovets resort.

Expectations for the next quarter are that the total revenues will rise further, as the main reason for this will be an increase in the rental income. The change in revenues will be as result of the new rental contract in Business Park Sofia and the last lease agreement in Kambanite office building.

■ Expenses from operations

In the reported quarter the total expenses of BREF decreased by over 10.27% compared to the previous reporting period and at the end of September 2018 reached EUR 357 thousand.

Table 10 – Realized expenses by quarters and from the beginning of 2018

Expenses (in thousand EUR)	Q3 - 2018	Q2 - 2018	Q1 - 2018	2018
Value of sold assets	(21)	-	-	(21)
Interest expense	(39)	(40)	(41)	(121)
Management fees	(147)	(145)	(144)	(435)
Materials expense	(2)	(1)	(2)	(4)
BOD and employees salaries expense	(19)	(19)	(19)	(58)
Other expenses	(129)	(194)	(135)	(459)
Total expenses	(357)	(398)	(341)	(1,097)

During the third quarter with biggest share of 41.06% of the expenses are Company's expenses for the management fee, as the expenses kept the level from the prior reporting period. At present, the calculation of the remuneration of the managing company does not take into account the money coming from the capital increase. During the next reporting periods, changes in the remuneration of the managing company will be made after the registration of the capital increase in the Commercial register. After that there will be a reduction of the remuneration to 1% per annum of the net assets of the Company.

On a second place with a share of 36.19% is the item "Other expenses". The core expenses in this item are for taxes and fees related to real estate, for hired services on property management and maintenance, bank charges and other administrative costs. Through the following reporting periods it is expected that the amount of this article will remain on this level.

Expenses on interest payable hold a share of 11.02% 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.

In the past quarter, as an expense is registered the written value of the sold property in Borovets. In the next quarter, such an expense is not foreseen.

Expectations are that in the next reporting period the expenses will keep the levels from the previous quarter, with a reduction in the written book value of the sold properties. Deviations can also be observed in the costs of remuneration of the managing company and also in the article Other expenses related to the company's properties.

■ Financial result

During the past three months of 2018, the Company realized a profit within the amount of EUR 518 thousand, and the main contribution for the recorded increase is the lower value of Other expenses. In the next reporting period, net revaluations of the property that will be carried out at the end of the year and the rental income realized in the last quarter of the year will be reflected in the financial result.

Table 11 – Financial result for first half of Q1, Q2, Q3 and accumulated from the beginning of 2018

Financial Result	Q3 - 2018	Q2 - 2018	Q1 - 2018	2018
Revenues	875	853	850	2,578
Expences	(357)	(398)	(341)	(1,097)
Net profit/loss for the period	518	455	509	1,481

The accounting profit divided by the adjusted average number of shares during the period gives the earning per share (EPS) of EUR 0.026, which does not take into account the future increase in the number of shares.

After the capital increase, the total number of the Company's shares will be increased to 34,642 thousand, with the yield for the first nine months of 2018 on the new number of shares yielding per share of 0.041 EUR.

Results per share (EUR '000)	2018**	2017	2016	2015
Earnings	1,481	2,742	2,147	1,027
Earnings per share (EPS)	0.074	0.136	0.107	0.051
Net asset value (NAV)	39,615	38,134	35,743	34,357
Adjusted common shares outstanding***	20,150	20,150	20,150	10,303
NAV per share	1.966	1.893	1.774	1.705
Dividend per share	0.0000	0.0174	0.0377	0.0408
Share fair value*	1.966	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

*** Number of shares before 2018 capital increase

The NAV per share, according to the unaudited statement of the Company, increased from EUR 1.893 per share at the end of 2017 to EUR 1.966 per share at the end of the first nine months of 2018, which is due entirely to the realized profit for the past period, without taking into account the revenues from the capital increase.

After the capital increase, the total number of the Company's shares will be increased to 34,642 thousand, with NAV per share of 1,546 EUR.

■ **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 September 2018, considering the investment bank loan of the Fund, it is exposed to interest rate risk regarding possible changes in the interest rate levels. From 1 July 2018 Sofibor has been replaced with PRIME, which requires the Company to keep track of the expected changes to PRIME levels and if it is necessary to renegotiate the terms of the loan.

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 the moment it has enough free funds to finance its operations and, after the capital increase, has the necessary funds to implement its investment program.

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 is 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 specialized in project management and will use online platforms to organise the construction bids.

4 Share performance

In the third quarter of the year, the share price of Bulgarian Real Estate Fund REIT marks a slight decline in its stock price, following the marked gains in mid-2017 year, the change in the value of the shares on an annual basis is -19.41%. Since the beginning of the year, the company's shares have lost 13.22% of its market value.

The stock index BGREIT, which follows the performance of the sector, reported a total increase of 0.61% as its level reached 117.79 points in September. The index fell 0.30% to 115.86 points in July, while in August it rose by 1.05% to 117.08 points. For the third quarter of the year, the stock index BGREIT, which monitors the performance of the sector, reported a total increase 1.35%, reaching 117.79 points at the end of the quarter. Real estate investment companies, however, continue to attract investor interest and their shares are traditionally one of the most traded on the BSE-Sofia.

A negative trend continues to be reflected in the capital market, with the leading index of the Bulgarian stock exchange SOFIX declining by 1.18% to 624.39 in September. In August, the blue chip index recorded a decline of 0.35% to 631.83 points. In July SOFIX dropped 0.04% to 634.03 points.

The index of the most liquid companies BGBX 40 declined by 0.29% to 121.93 points in September. The indicator declined by 1.76% to 122.70 points in July, while in August it lost 0.34% to 122.28 points.

Despite the negative trends, there was a significant increase in the period trading on BSE - Sofia.

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 01.10.2017 - 30.09.2018:

- Opening Price – BGN 2.313 (02 October 2017)
- Closing Price – BGN 1.920 (28 September 2018)
- Highest Price – BGN 2.395 (06 October 2017г.)
- Lowest Price – BGN 1.810 (03 April 2018)
- Total Trading Volume – 2,044,943 shares
- Turnover for the period – BGN 4,148,354 (EUR 2,121,020)
- Weighted average price – BGN 2.029
- Market Capitalization (30.09.2018) – BGN 38,688,000 (EUR 19,780,860)

**BREF Share Price Performance
(01.10.2017 - 30.09.2018)**

