

# **“Bulgarian Real Estate Fund”**

## **First Half Summary Report**



30 July 2019

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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 (30.06.2019)	Shares Outstanding
<b>Bulgarian Stock Exchange Sofia</b>	<b>5BU (BREF)</b>	<b>EUR 36,841,241</b>	<b>34,641,925</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 half of the year, there were no significant changes in the Company's portfolio.

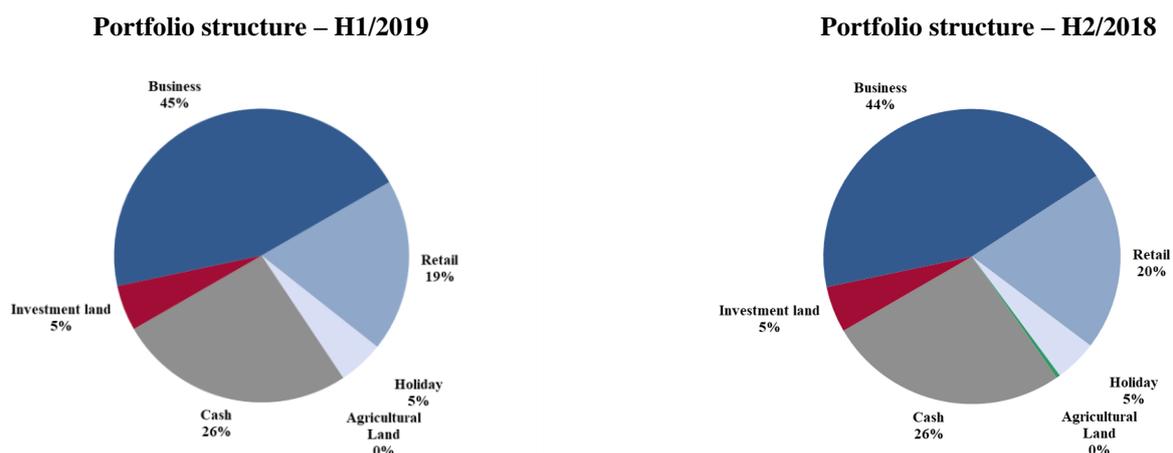
At the end of the period the business properties share is growing up to 45%. Followed by the trade properties with share of 19% and the investment and vacation properties had share of 5% each. The amount of cash retained its share of the end of previous year, when it grew as a result of the company's capital increase and reached 26% of the total portfolio volume. The expectations for the next reporting periods, with the fortification 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 half year were as follows:

- Launch of the construction activities of the new office building in Sofia Tech Park.
- Conducting of construction auctions for the development of the office building in Sofia Tech Park;
- Negotiating and signing the first lease agreement for office space in Synergy Tower Office Building in Sofia Tech Park;
- Start of the marketing campaign of the new project in Sofia Tech Park and conducting negotiations to conclude a lease with a potential tenant;
- Negotiating and signing an additional agreement with Survey Sampling Bulgaria for the lease of additional space in the Kambanite Office Building;
- Operational management of the Kambanite Office Building;
- Operational management and conducting of capital repairs in Building 1 in Business Park Sofia;

The projects managed by BREF as of the end of June 2019 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 half year, the Company's activity was mainly directed towards managing seven 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 30.06.2019	Future investments
<b>Current projects</b>				
"Mr. Bricolage" - sale and leaseback	operational management	10,446	11,742	
Agricultural land	for sale	58	257	
Investment plots near Veliko Tarnovo*	for sale	192	624	0
Apartment house "Sequoia 2" - Borovetz	for sale	1,627	726	
Office building 1 - Business Park Sofia	operational management	7,443	9,615	0
Kambanite Office Building	operational management	8,967	11,496	
Office building Sofia Tech Park	in construction	6,137	6,095	32,723
<b>Pipeline projects</b>				
Seaside Holiday Village	suspended	2,254	2,041	
Investment plots near Vidin*	suspended	301	631	0
Investment plots in Sofia - Mladost IV*	suspended	4,817	1,781	0
<b>Total</b>		<b>42,242</b>	<b>45,007</b>	<b>32,723</b>

\* The value of the project will be determined after preliminary project development

From the above-mentioned projects, Doverie-Bricolage Shopping Centers, Office Building 1 in Business Park Sofia and Office Building Kambanite are in a stage of ongoing management. Residential building "Sequoia 2" - Borovets, Project Agricultural Land and Investment properties near Veliko Tarnovo are in the process of selling and the office building in Sofia Tech Park is in a construction phase. The next group consists of projects in the pipeline or suspended and there is no progress on their development. Such projects are Investments plots near Vidin, seaside properties near Lozenets and those located in Sofia in Mladost IV district.

## 2.2 Project – “Mr. Bricolage” – sale and leaseback

The start of the Mr. Bricolage project was in 2006. The investment is of the kind "sale and leaseback", the subject of which are the two stores in the chain Mr.Bricolage located in the city of Varna in Mladost district and in Sofia on Tsarigradsko 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 half of the year the lease agreements were regularly serviced. During the period, the gradual renovation of the air-conditioning system in Sofia continued.

### 2.3 Project – Agricultural Land

The total agricultural land owned by BREF as of the end of the first 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. At the end of the period, the Board of Directors of the Fund decided to sell the properties in case of interest from a potential buyer.

After the end of the reporting period, a total of 395 acres of agricultural land was sold.

**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.

As of the end of June, 2019 the total quantity of sold apartments was twelve and one garage. The sales campaign for the remaining properties in the building continues.

After the end of the reporting period, a preliminary contract was signed for the sale of another apartment.

**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 1.63 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 June 2019 the company’s properties have a 100% occupancy rate. The main tenants in the building are Atos IT Solutions and Services EOOD, EXL Service Bulgaria EAD, C3i Europe EOOD.

The renovation of the foyer of the building was completed in the course of the first half of the year.

**Project parameters:**

Building 1 - Business Park Sofia	
Built-up area - offices	7,318 sq.m
Parking lots	68
Acquisition price	EUR 7.5 M
Occupancy rate	100.0%

## 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 June the building was leased to 97.07%. The main tenants in the building are Addeco Bulgaria EOOD with 6,902.31 square meters, Survey Sampling Bulgaria EOOD with 1489.48 sq.m. after the signed annex during the period for additional rent and Konica Minolta with 845,90 sq.m. The total number of leased parking spaces is 173, of which 55 are in the underground parking area. The tenant of the restaurant area is Victoria G 2011 EOOD.

In 2016, the Company secured a bank loan for financing the project construction amounting to EUR 5.62 million with Eurobank Bulgaria AD. By the end of March 2019, the outstanding principal amounts to EUR 4.33 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	97.07%

## 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. At the end of 2018 Company received a construction permission № 336 / 04.11.2018 with the following parameters: Total built-up area above ground 34,998.88 sq.m. and total built-up area of 50,761.38 sq.m.

Over the past period the construction work began. By the end of the reporting period, the building is at the shell construction stage. The expected construction completion is in the second half of 2021.

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 at a later stage - with borrowed funds.

The marketing campaign of the project was launched in this half. Designing a website and promotional materials making is planned. Also during the period, was signed the first lease contract with ROBERT BOSCH EOOD. The new lease agreement is for 6 years and the total rented area is 2749.41 sq.m. With the leased premises the occupancy rate of the building reaches 8.5% of the leasable area.

## 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 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. 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.

During this reporting period, the Company decided that the properties would be sold at presence of potential buyers.

### Project parameters:

Investment Plots near Veliko Turnovo	
Total plots' area	148,554
Purchase price	EUR 0.19 M
Status	for sale

## 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**

The start of the project was in 2007, when the company purchased properties with a total area of 79,253 sq.m. In 2008, 31,908 sqm were sold and later another 4,166 sqm were also sold.

After execution of the sales and following the change in DDP, 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	16,018 sq.m
Purchase price	EUR 4.8 M
Status	suspended

## 3 Financial Highlights H1/ 2019

### 3.1 Summarized Financial Statements

The following financial statements are based on non-audited financial statement for the first half of 2019.

**Table 3 – Balance sheet as of June 30 2019, December 31<sup>th</sup> 2018, June 30 2018**

(All amounts in EUR '000)	30.06.2019	31.12.2018	30.06.2018
<b>ASSETS</b>			
<b>Non-current Assets</b>			
Investment property	42,321	43,202	41,758
Cost for acquisition of fixed assets	1,108	388	141
Plant and equipment	2	3	4
Intangible assets	1	2	2
<b>Total Non-current Assets</b>	<b>43,431</b>	<b>43,594</b>	<b>41,905</b>
<b>Current Assets</b>			
Investment property held for sale	1,607	726	782
VAT receivable	49	-	108
Trade receivable	276	235	177
Cash and cash equivalents	15,708	15,822	2,135
Other current assets	1	1	2
Deferred expenses	61	31	23
<b>Total Current Assets</b>	<b>17,702</b>	<b>16,815</b>	<b>3,226</b>
<b>TOTAL ASSETS</b>	<b>61,134</b>	<b>60,409</b>	<b>45,131</b>
<b>EQUITY AND LIABILITIES</b>			
<b>Equity</b>			
Share capital	17,712	17,712	10,303
Share premium	30,361	30,361	23,849
Retained earnings	6,653	5,499	4,946
<b>Total equity</b>	<b>54,726</b>	<b>53,572</b>	<b>39,097</b>
<b>Non-current liabilities</b>			
Interest bearing loan	3,706	4,012	4,310
Other long-term liability	-	-	-
<b>Total Non-current liabilities</b>	<b>3,706</b>	<b>4,012</b>	<b>4,310</b>
<b>Current liabilities</b>			
Current part of non-current liabilities	610	601	593
Payables to management company	75	191	581
Payables to the personnel and SIC	1	1	1
Provisions for dividends due	1,764	1,764	351
Trade and Other current liabilities	252	268	198
<b>Total Current liabilities</b>	<b>2,702</b>	<b>2,825</b>	<b>1,723</b>
<b>Total liabilities</b>	<b>6,408</b>	<b>6,837</b>	<b>6,033</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>61,134</b>	<b>60,409</b>	<b>45,131</b>

**Table 4 – P&L statement by halves**

(All amounts in EUR '000)	H1 - 2019	H2 - 2018	H1 - 2018
Income from sale of assets	-	42	-
Rental income	1,867	1,758	1,697
Other Income	8	1,301	6
<b>Total Revenue</b>	<b>1,874</b>	<b>3,101</b>	<b>1,703</b>
Value of sold assets	-	(42)	-
Interest expense	(73)	(78)	(81)
Management fees	(268)	(283)	(288)
Materials expense	(13)	(20)	(2)
BOD and employees salaries expense	(40)	(49)	(38)
Other expenses	(327)	(310)	(329)
<b>Total expenses</b>	<b>(721)</b>	<b>(783)</b>	<b>(739)</b>
<b>Profit/(loss) for the period</b>	<b>1,153</b>	<b>2,319</b>	<b>963</b>
<b>Adjusted weighted average number of shares in the quarter (in thousands)</b>	<b>34,642</b>	<b>34,642</b>	<b>20,150</b>
<b>Earnings per share - basic and diluted</b>	<b>0.033</b>	<b>0.067</b>	<b>0.048</b>

### 3.2 Liquidity

**Table 5 – Liquidity indicators for BREF as of 30.06.2018 and 31.12.2018**

Liquidity Ratios	30.06.2019	31.12.2018	30.06.2018
Current ratio	6.55	5.95	1.87
Quick ratio	5.96	5.69	1.42
Cash ratio	5.81	5.60	1.24

During the past six months the liquidity ratios increased in comparison with the prior reporting period. The major change follows from the transfer of investment properties from the long-term into the current assets and accordingly the larger increase of the second ones. The current liquidity ratio increased to 6.55 and the quick and cash liquidity increased to 5.96 and 5.81.

During the next reporting period the liquidity of the company is expected to drop, as a result of the expenses on the realization of the new investment project in Sofia Tech Park.

#### ■ Internal Sources of Liquidity

In the first six months of 2019 the internal sources of liquidity increased in the current assets, while the short-term assets decreased. The reasons for these changes were the transfer of properties into the current assets and the decrease of the payables to related companies in the liabilities.

**Short-term (current) assets**
**Table 5A** – Current assets as of 30.06.2019, 31.03.2019 and 30.06.2018

Liquidity sources	30.06.2019	%	31.12.2018	%	30.06.2018
<b>Current Assets</b>					
Investment property held for sale	1,607	9.08%	726	4.32%	782
VAT receivable	49	0.27%	0	0.00%	108
Trade receivable	276	1.56%	235	1.40%	177
Cash and cash equivalents	15,708	88.74%	15,822	94.10%	2,135
Other current assets	1	0.01%	1	0.01%	2
Deferred expenses	61	0.35%	31	0.18%	23
<b>Total Current Assets</b>	<b>17,702</b>	<b>100%</b>	<b>16,815</b>	<b>100%</b>	<b>3,226</b>

The total amount of the current assets of BREF increased by 5.28%, reaching EUR 17,702 at the end of the period. During the past six months the major change in the short-term assets was in the value of the investment properties held for sale.

The overall structure of the current assets remained the same, the major share being that of cash and short-term deposits, accounting for 88.74%. During the next reporting period the funds under this item, available to the Company, are expected to decrease on account of the expenses to be made in connection with the new BREF project in Sofia Tech Park.

The investment properties were next with a share of 9.08%, and this value increased from the prior reporting period. The item already contains the properties that are part of the Sequoia 2 residential building in Borovets resort, as well as the investment properties in Veliko Tarnovo and the agricultural land. During the next reporting period, after the sale of the agricultural land, the value of the item is expected to decrease.

Trade receivables and interest were next with a share of 1.56%. These recorded a minor increase as a result of the accumulated receivables related to the construction of the new office building in Sofia Tech Park. Major variation in the receivables is not expected to occur during the next reporting period.

Increase was recorded in the deferred expenses and the major reason for that was the assessed brokerage fee in connection with the first lease agreement in Sofia Tech Park.

The total amount of the current assets during the next reporting periods will mainly depend on the generated income from rents and the incurred expenses on the construction of the new building in Sofia Tech Park.

 ○ **Short-term (current) liabilities**
**Table 5B** – Current liabilities as of 30.06.2019, 31.03.2019 and 31.12.2018

Liquidity sources	30.06.2019	%	31.12.2018	%	30.06.2018
<b>Current liabilities</b>					
Current part of non-current liabilities	610	22.57%	601	21.26%	593
Payables to management company	75	2.78%	191	6.77%	581
Payables to the personnel and SIC	1	0.02%	1	0.02%	1
Provisions for dividends due	1,764	65.30%	1,764	62.45%	351
Trade and Other current liabilities	252	9.33%	268	9.50%	198
<b>Total Current Liabilities</b>	<b>2,702</b>	<b>100%</b>	<b>2,825</b>	<b>100%</b>	<b>1,723</b>

During the past six months the total amount of the short-term assets decreased by 4.36% from the prior reporting period and reached EUR 2,702 thousand by 30 June 2019. The main reasons for the change were the decrease of the liabilities to MNI OOD and the trade and other liabilities of the company, provided that this did not lead to significant change in the structure of the liabilities.

The biggest share of the current liabilities, 65.30%, was taken up by Provisions for dividends. The amount so calculated represents 90% of the transformed financial result, determined as provided by art. 10 of the SPV Act. The amount to be distributed as dividends for 2018 was voted at the regular General meeting of the shareholders, held on 03 July 2019 and is to be distributed to the shareholders.

The Current part of non-current liabilities were next with 22.57%. Their value was EUR 610 thousand and the recorded increase from the prior reporting period was a result of the increasing payments under the loan principal as per the repayment schedule. This amount is expected to continue to increase with the increase of the payable principal in the reporting periods to come.

The Trade and other liabilities of the company were third, accounting for 9.33% of the short-term liabilities. The recorded change resulted from the paid current liabilities of the Company. The main entries under this item are the liabilities of the Fund under received deposits under loan agreements and rents paid in advance, which will preserve their value in the next reporting period.

The liabilities to the managing company were at fourth place, accounting for 2.78%, recording a decrease from the prior period as a result of the paid old liabilities for management fee and paid warranty liabilities relating to the construction of the Kambanite office building. Most of the remaining current liabilities are related to the construction of the new building in Sofia Tech Park and respectively constitute retained funds of the construction companies, serving as performance bonds.

During the next reporting period major changes will occur in the current liabilities after payment of the calculated 2018 dividends to the shareholders.

#### ■ 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.

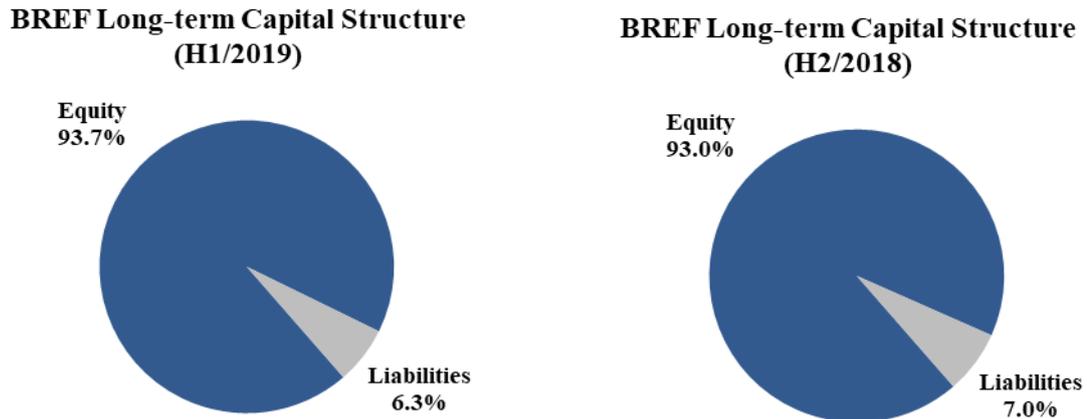
For the purpose of its ongoing projects, the Company has the financial resources that are sufficient to secure its operations over the next months. With regard to the development of the new investment project for an office building in Sofia Tech Park, along with the increased capital, the Fund plans at the next stage to take new borrowed funds.

### **3.3 Capital resources**

At the end of June 2019 the total long-term capital of the Company, both own and borrowed, slightly changed, reaching EUR 38,431 thousand. During the past six months the structure of the long-term capital did not register a significant change, the share of the borrowed capital being 6.3% and the own capital being 93.7%.

During the next reporting period, with the generation of new financial results and the continuing payment of the principal under the utilised bank loan, the share of the own capital is expected to continue to increase. The distribution between the own capital and the borrowed funds for the last six months is presented by the figures below.

*Figure 2: Allocation between equity and external financing*



*Table 6 – Leverage ratios*

Leverage ratios	30.06.2019	31.12.2018	30.06.2018
Debt-to-Equity	0.12	0.13	0.15
Non-Current Assets-to-Equity ratio	0.79	0.81	1.07
Long-term-Debt-to-Non-Current-Asset ratio	0.09	0.09	0.10

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

## ■ Equity

At the end of June 2019 the BREF own capital was EUR 54,726, or a 2.15% increase from the prior reporting period. This increase was a result of the profit generated by the company during the past period.

*Table 7 – Total equity as of 30.06.2019, 31.12.2018 and 30.06.2018*

Equity (in thousands)	30.06.2019	31.12.2018	30.06.2018
Share capital	17,712	17,712	10,303
Share premium	30,361	30,361	23,849
Retained earnings	6,653	5,499	4,946
<b>Total equity</b>	<b>54,726</b>	<b>53,572</b>	<b>39,097</b>

The first six months of 2019 did not see a significant change in the structure of the own capital of the company. At the end of the reporting period the only change was in the Accumulated profit.

## ■ External financing

During the first six months of 2019 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 a reference interest rate PRIME + 3.1%. In the first half of 2019, 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 4.32 million.

## ■ Capital expenses during the next periods under review

After the acquisition of the construction permission 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 previous year and at next stage will use borrowed capital.

As to the remaining projects, capital expenses are expected to be made in Mr. Bricolage store in Sofia, where replacement of some of the systems of the building is under way.

## 3.4 Asset structure

The sum of the BREF assets at the end of the first six months increased with 1.20%, reaching EUR 61,134 thousand, as compared to the end of the prior six-month period when the value of the assets was EUR 60,409 thousand. The registered increase was mainly a result of the accumulated cash funds from rents, used to cover the expenses on the construction of the new office building in Sofia Tech Park. During the next reporting period, with the generation of the additional income from rents, the assets are expected to continue to increase, the major change to be monitored in the provision of external financing for the BREF investment program.

*Table 6 – Asset structure*

Asset structure (thousand EUR)	30.06.2019	% share	31.12.2018	% share	30.06.2018
<b>Non-current assets incl.</b>	<b>43,431</b>	<b>71.04%</b>	<b>43,594</b>	<b>72.16%</b>	<b>41,904</b>
- total property	42,321	69.23%	43,202	71.52%	41,758
- cost for acquisition of fixed assets	1,108	1.81%	388	0.64%	141
<b>Current assets incl.</b>	<b>17,702</b>	<b>28.96%</b>	<b>16,815</b>	<b>27.83%</b>	<b>3,226</b>
- trade receivable	276	0.45%	235	0.39%	177
- investment property held for sale	1,607	2.63%	726	1.20%	782
- cash and cash equivalents	15,708	25.70%	15,822	26.19%	2,135
<b>Total assets</b>	<b>61,134</b>	<b>100%</b>	<b>60,409</b>	<b>100%</b>	<b>45,132</b>

During the first six-month period of 2019 the structure of the assets of the Company did not significantly change as compared to the prior reporting period. The share of the short-term assets increased on account of that of the long-term ones. The change was a result of the increase of the value of the investment properties held for sale and trading, as a result of the decision for sale of the investment properties in Veliko Tarnovo and the agricultural lands.

During the next reporting period the share of the expenses on acquisition of FA is expected to continue its upward movement, which will be on account of the cash in short-term assets.

## 3.5 Financial Results

The activity of the Company in the first six months of 2019 was mainly focused on the management of the projects generating income for the Company and organization of the realization of the project in Sofia Tech Park.

### Revenue from operations

During the six-month period under review the recorded income was EUR 1,874 thousand, which represented a 39.56% drop from the second half of 2019 and an increase of 10.1% from the first half of 2018. The main reason for this was the fact that during the reporting period there was no new net income from property revaluation, as was at the end of 2018.

**Table 9 – Revenue earned in the first half of 2019 and 2018**

Revenue (in thousand EUR)	H1 - 2019	H2 - 2018	H1 - 2018
Income from sale of assets	-	42	-
Rental income	1,867	1,758	1,697
Other Income	8	1,301	6
<b>Total revenue</b>	<b>1,874</b>	<b>3,101</b>	<b>1,703</b>

During the last six months the Rental income accounted for 99.59% of the income, taking up the biggest share. Its amount reached EUR 1,867 thousand, as a result of the updated rental contracts during the period, as well as the income from the free office areas of one of the tenants at Kambanite Green Offices, which were temporarily let out.

The Other income item was next, recording a significant change from the prior reporting period. The major reason for this change was the property revaluations recorded at the end of the prior year, which were absent in the first half of 2019.

The income from sale of properties was not reported during the current reporting period, and the sale of the agricultural land and of a property in Borovets resort will be recorded during the next reporting period.

The total income is expected to increase more during the next reporting period, on account of the increased amount of the income from rent. The change will be as a result of the coming updating of the other rental agreements, as well as the payments under the new agreement of Survey Sampling Bulgaria EOOD in Kambanite Green Offices.

## ■ Expenses from operations

During the last six months the total expenses of BREF decreased by 7.96% from the prior reporting period, reaching EUR 721 thousand at period-end.

**Table 10 – Realized expenses in the first half of 2019 and 2018**

Expenses (in thousand EUR)	H1 - 2019	H2 - 2018	H1 - 2018
Value of sold assets	-	(42)	-
Interest expense	(73)	(78)	(81)
Management fees	(268)	(284)	(288)
Materials expense	(13)	(20)	(2)
BOD and employees salaries expense	(40)	(49)	(38)
Other expenses	(327)	(310)	(329)
<b>Total expenses</b>	<b>(721)</b>	<b>(784)</b>	<b>(739)</b>

The Other expenses item took up the largest share during the first six-months, accounting for 45.39%. The recorded increase was a result of the higher expenses on repair of the buildings incurred during the period. The other major expenses under this account were those for property taxes and charges, external services related to property management and maintenance, bank charges and another administrative expenses. During the next reporting period the amount of this item is expected to keep its amount.

At second place, accounting for 37.16%, were the expenses on remuneration of the managing company, provided that the amount of the expenses decreased as a result of the new management

contract, whereby the fee paid to MNI OOD amounts to 1% per year of the net asset value of the Company. During the next reporting period the amount of this item of the expenses is expected to remain within the limits of the prior period.

The Interest expense accounted for 10.07% and include interest paid and assessed under the Company loan. This item recorded a decrease from the prior period, as a result of the lower amount of the principal under the loan extended to the Company. During the next reporting period the expenses on interest are expected to drop further with the lower amount of the liability under the loan.

The forecasts for the next reporting period are that the expenses will remain in the same limits. Any deviations may be observed in the Other expenses item, related to payments for the properties of the company

## ■ Financial result

During the first six months of 2019 the Company generated a profit of EUR 1,153 thousand, the major contribution for this result being by the income from rents and the decreased expenses. During the next reporting periods, with the expected increase of the income from rent, the Company profit is expected to register a minor increase. The regular revaluations at the end of the year will also have an impact on the final result.

*Table 11 – Financial result by half years*

Financial Result	H1 - 2019	H2 - 2018	H1 - 2019
Revenues	1,874	3,101	1,703
Expences	(721)	(783)	(739)
<b>Net profit/loss for the period</b>	<b>1,153</b>	<b>2,318</b>	<b>963</b>

The accounting profit divided by the average adjusted number of shares during the sixth months lead to earning per share (EPS) of EUR 0.057.

Results per share (EUR '000)	2019 **	2018	2017	2016
Earnings	1,153	3,281	2,742	2,147
Earnings per share (EPS)	0.033	0.095	0.136	0.107
Net asset value (NAV)	54,726	53,572	38,134	35,743
Adjusted commom shares outstanding	34,642	34,642	20,150	20,150
NAV per share	1.580	1.546	1.893	1.774
Dividend per share	0.0509	0.0509	0.0174	0.0377
Share fair value*	1.631	1.597	1.910	1.812

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

\*\* The net value of assets for 2019 was based upon an unaudited report, and for the period 2016-2018 in line with audited reports

The net value of the assets per share (NAV per share), as per the unaudited statements of the Company increased from EUR 1.546 per share at the end of 2018 to EUR 1.580 per share at the end of June 2019, which increase is fully on account of the generated profit during 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 June 2019, 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

During the first half of 2019 the price of the Bulgarian Real Estate Fund SPV shares recorded an increase of 9.5% in comparison with the end of 2018 and 8.9% in comparison with the same period of the last year. The number of transactions with shares of the company was 739 and the Company shares are still among the most traded on the floor of the Bulgarian Stock Exchange.

After the fall in 2018 the segment of the SPV traded on the exchange renewed its growth - the sector index BGREIT, monitoring the performance of such companies, increased with 3.9% during the first six months of the year to 125.83 points and was the best performing index on the Bulgarian capital market. During this period the companies investing in real estates continued to generate the interest of the investors and their shares remained among the most traded on the floor of the Bulgarian Stock Exchange in 2019, both in terms of number of transactions and in terms of realized turnover.

Unlike the positive development in the real estate sector, the capital market as a whole recorded slower growth in the period January - June 2019. The leading index of the Bulgarian Stock Exchange, SOFIX, was 587.81 points at the end of June, or 1.1% lower than 2018 year end. The broad index BGBX40 was merely 0.4 higher during the six-month period, reaching 116.33.

The trade on the Bulgarian Stock Exchange continued at a slow pace in 2019. In the January - June 2019 period 21 955 transactions were made on the Regulated market with a total trade turnover of BGN 125.3 million.

The major risk factors faced by the Bulgarian economy, in particular the public companies on the capital market, are related to the potential slowdown of the economic growth in Bulgaria and the EU - the major trade partner of the country and the insufficient short-term and long-term foreign investments in the country and in particular the Bulgarian Stock Exchange.

Summarized trading details for the period 01.07.2018 - 30.06.2019:

- Opening Price – BGN 1.900 (02 June 2018)
- Closing Price – BGN 2.08 (28 June 2019)
- Highest Price – BGN 2.08 (28 June 2019)
- Lowest Price – BGN 1.840 (30 January 2019)
- Total Trading Volume – 2,769,739 shares
- Turnover for the period – BGN 5,287,876 (EUR 2,703,648)
- Weighted average price – BGN 1.910
- Market Capitalization (30.06.2019) – BGN 72,055,204 (EUR 36,841,241)

**BREF Share Price Performance  
(01.07.2018 - 30.06.2019)**

