

“Bulgarian Real Estate Fund”

Third Quarter Summary Report



30 October 2019

Contents

1	<i>Overview of the Fund</i>	3
2	<i>Portfolio</i>	4
3	<i>Financial Highlights Q3/ 2019</i>	9
4	<i>Share performance</i>	18

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 the superb potential for cash-flow growth and capital appreciation. With these objectives BREF constructed a portfolio of 9 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 (30.09.2019)	Shares Outstanding
Bulgarian Stock Exchange Sofia	5BU (BREF)	EUR 35,424,270	34,641,925

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 of the year, continues the tendency of the past periods for increasing the share of business properties in the structure of the Company's portfolio.

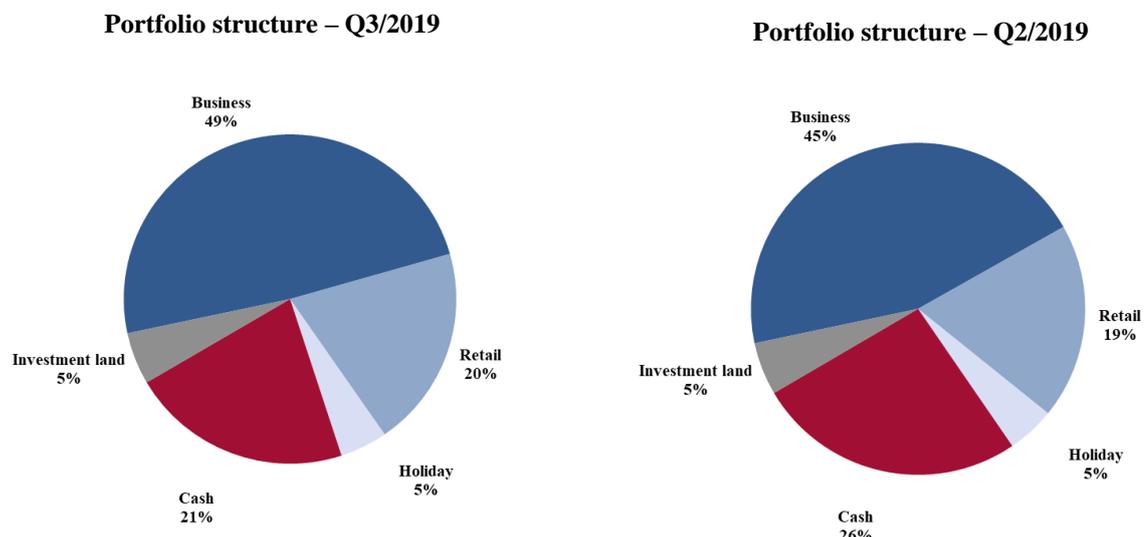
At the end of the period the business properties share increase to 49%. Followed by the trade properties with a share of 20% and the investment and vacation properties had a share of 5% each. The amount of cash decreased its share since at the end of the reporting period. The reason for the change is the cost of construction of the new building in Sofia Tech Park and the dividend paid for 2018. 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 quarter were as follows:

- Ongoing 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;
- Development of the marketing strategy of the new project in Sofia Tech Park;
- Operational management of the Kambanite Office Building;
- Operational management and conducting of capital repairs in Building 1 in Business Park Sofia;
- Sale of agricultural land from BREF's portfolio;
- Sale of an apartment in Borovets.
- Operational management of the properties leased to Mr. Bricolage;

The projects managed by BREF as of the end of September 2019 were nine, 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 30.09.2019	Future investments
Current projects				
"Mr. Bricolage" - sale and leaseback	operational management	10,446	11,742	
Investment plots near Veliko Tarnovo*	for sale	192	624	0
Apartment house "Sequoia 2" - Borovetz	for sale	1,627	699	
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	7,937	7,894	30,678
Pipeline projects				
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
Total		43,985	46,524	30,678

* 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 and Investment properties near Veliko Tarnovo are in the process of selling and the office building in Sofia Tech Park is in the construction phase. The next group consists of projects in the pipeline or suspended and there is no progress in their development. Such projects are Investments plots near Vidin, Seaside plots 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 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.

2.3 Project – Agricultural Land

Following the decision taken by the Board of Directors for the sale of agricultural land, the sales themselves totaled 395 acres in the quarter. The remaining property will also be sold and the project will be closed.

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 September 2019, the total quantity of sold apartments was thirteen and one garage. During the reporting period it was signed preliminary contract for the sale of another apartment. 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	23
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 September 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.

Project parameters:

Building 1 - Buisness 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 September, 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. and Konica Minolta with 845.90 sq.m. The total number of leased parking spaces is 183, of which 57 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 project construction amounting to EUR 5.62 million with Eurobank Bulgaria AD. By the end of September 2019, the outstanding principal amounts to EUR 4.17 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 8.97 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., a total built-up area of up to 35,000 sqm, 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 of 2018, the 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 a 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 continues during this quarter. Designing a website and promotional materials are planned. Also during the previous reporting 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 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.

During the previous reporting period, the Company decided that the properties would be sold at the 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 a 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

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 was sold and later another 4,166 sqm were also sold. After the 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:

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/ 2019

3.1 Summarized Financial Statements

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

Table 3 – Balance sheet as of 30 September 2019, 30 June 2019, 31 March 2019 and 30 September 2018

(All amounts in EUR '000)	30.09.2019	30.06.2019	31.03.2019	30.09.2018
ASSETS				
Non-current Assets				
Investment property	42,321	42,321	42,321	41,758
Cost for acquisition of fixed assets	2,908	1,108	597	274
Plant and equipment	2	2	2	3
Intangible assets	-	1	1	2
Total Non-current Assets	45,230	43,431	42,920	42,037
Current Assets				
Investment property held for sale	1,327	1,607	1,607	761
VAT receivable	94	49	-	54
Trade receivable	308	276	235	197
Cash and cash equivalents	12,786	15,708	15,989	15,782
Other current assets	1	1	-	1
Deferred expenses	62	61	42	22
Total Current Assets	14,577	17,702	17,873	16,818
TOTAL ASSETS	59,807	61,134	60,793	58,855
EQUITY AND LIABILITIES				
Equity				
Share capital	17,712	17,712	17,712	10,303
Share premium	30,361	30,361	30,361	37,772
Retained earnings	7,224	6,653	6,069	5,464
Total equity	55,296	54,726	54,142	53,538
Non-current liabilities				
Interest bearing loan	3,551	3,706	3,859	4,161
Other long-term liability	-	-	-	-
Total Non-current liabilities	3,551	3,706	3,859	4,161
Current liabilities				
Current part of non-current liabilities	614	610	605	597
VAT payable	-	-	60	18
Payables to management company	90	75	104	191
Payables to the personnel and SIC	1	1	1	1
Provisions for dividends due	-	1,764	1,764	-
Trade and Other current liabilities	255	252	257	349
Total Current liabilities	960	2,702	2,792	1,156
Total liabilities	4,511	6,408	6,651	5,316
TOTAL EQUITY AND	59,807	61,134	60,793	58,855

Table 4 – P&L statement by quarters

(All amounts in EUR '000)	Q3 - 2019	Q2 - 2019	Q1 - 2019	2019	Q3 2018
Income from sale of assets	295	-	-	295	21
Rental income	925	945	921	2,792	853
Other Income	-	1	7	8	1
Total Revenue	1,219	946	929	3,094	875
Value of sold assets	(278)	-	-	(278)	(21)
Interest expense	(34)	(36)	(37)	(107)	(39)
Management fees	(152)	(134)	(134)	(420)	(147)
Materials expense	(1)	(1)	(12)	(14)	(2)
BOD and employees salaries expense	(21)	(20)	(20)	(61)	(19)
Other expenses	(163)	(171)	(156)	(490)	(129)
Total expenses	(649)	(361)	(359)	(1,370)	(357)
Profit/(loss) for the period	570	584	570	1,724	518
Adjusted weighted average number of shares in the quarter (in thousands)	34,642	34,642	34,642	34,642	34,642
Earnings per share - basic and diluted	0.016	0.017	0.016	0.050	0.015

3.2 Liquidity

Table 5 – Liquidity indicators for BREF as of 30.09.2019, 30.06.2019, 31.03.2019 and 30.09.2018

Liquidity Ratios	30.09.2019	30.06.2019	31.03.2019	30.09.2018
Current ratio	15.19	6.55	6.40	14.55
Quick ratio	13.81	5.96	5.83	13.90
Cash ratio	13.32	5.81	5.73	13.66

During the past quarter the liquidity ratios increased in comparison with the prior reporting period. The major change was as a result of the decreasing current liabilities, as a result of the dividend payments during the period. The current liquidity ratio increased to 15.19 and the quick and cash liquidity ratios increased to 13.81 and 13.32 accordingly.

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

■ Internal Sources of Liquidity

During the 2019 Q3 the internal sources of liquidity dropped, both in the current assets and in the short-term liabilities. The main reasons for the changes were the reduction of cash in the assets resulting from the progress of the construction works under the new project of the Company in Sofia Tech Park and the dividend payments to the shareholders in the liabilities.

Short-term (current) assets
Table 5A – Current assets as of 30.09.2019, 30.06.2019, 31.03.2019 and 30.09.2018.

Liquidity sources	30.09.2019	30.06.2019	31.03.2019	30.09.2018
Current Assets				
Investment property held for sale	1,327	1,607	1,607	761
VAT receivable	94	49	0	54
Trade receivable	308	276	235	197
Cash and cash equivalents	12,786	15,708	15,989	15,782
Other current assets	1	1	0	1
Deferred expenses	62	61	42	22
Total Current Assets	14,577	17,702	17,873	16,818

The total amount of the current assets of the company decreased from the prior reporting period, reaching EUR 14,577 thousand. During the past quarter the main changes in the short-term assets were in the amount of cash and the investment properties held for sale.

The overall structure of the short-term assets remained without change, the major share being that of cash and short-term deposits, accounting for 87.71%. During the next reporting period the balance under this item available to the Company is expected to drop as a result of the expenses to be incurred in connection with the new BREF project in Sofia Tech Park.

Second is the Investment properties item, accounting for 9.10%, whose value dropped from the prior reporting period as a result of the property sales during the reporting period. The item contains, in addition to the properties, also part of the residential building Sekvoia 2 in Borovets Resort and the investment properties in Veliko Tarnovo. During the next reporting period, unless there are new property sales, the item is expected to keep its value.

The Commercial receivables and Interest item was next with 2.11%. They increased their value from the prior reporting period, mainly due to receivables from tenants repaid on a monthly basis. No major change is expected during the next reporting period.

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

 ○ **Short-term (current) liabilities**
Table 5B – Current liabilities as of 30.09.2019, 30.06.2019, 31.03.2019 and 30.09.2018

Liquidity sources	30.09.2019	%	30.06.2019	%	31.03.2019	30.09.2018
Current liabilities						
Current part of non-current liabilities	614	63.99%	610	22.57%	605	680
Payables to management company	90	9.38%	75	2.78%	104	389
Payables to the personnel and SIC	1	0.05%	1	0.02%	1	1
Provisions for dividends due	0	0.00%	1,764	65.30%	1,764	760
Trade and Other current liabilities	255	26.58%	252	9.33%	257	248
Total Current Liabilities	960	100%	2,702	100%	2,792	2,138

During the past quarter the total amount of the short-term liabilities recorded a considerable decrease of 64.48% from the prior reporting period, reaching EUR 960 thousand as at 30 September 2019. The main reasons for the change were the dividend payments to the shareholders in the Company, which caused a considerable change also in the structure of the current liabilities.

The biggest share of the current liabilities was that of the Short-term loans and assessed interest. Their value amounted to EUR 614 thousand and the recorded increase from the prior reporting

period was a result of the increasing payments under the loan principal, in compliance with the repayment schedule. The amount is expected to continue its growth during the next reporting periods with the increase of the currently payable principal.

The second biggest share in the short-term liabilities was that of the Commercial and other liabilities of the company, accounting for 26.58%. The recorded change was a result of the assessed new obligations of the Company. The main entries under this item were the obligations of the Fund under received guaranties under rental agreements and advance paid rents, which will keep their value in the next reporting period.

The obligations to the managing company, taking up a share of 9.38%, were third, increasing in comparison with the prior period mainly as a result of the assessed obligations related to the construction of the new building in Sofia Tech Park, being retained funds of the construction companies serving as performance bonds.

The Provisions for payable dividends item is 0 during the current period, as the 2018 dividends to the shareholders are written off. During the next reporting period the new assessments for the 2019 dividend will be reflected here.

Major changes in the current liabilities are expected during the next quarter, provided that changes are most likely to occur when assessing the dividend payable for 2019.

■ External Sources of Liquidity

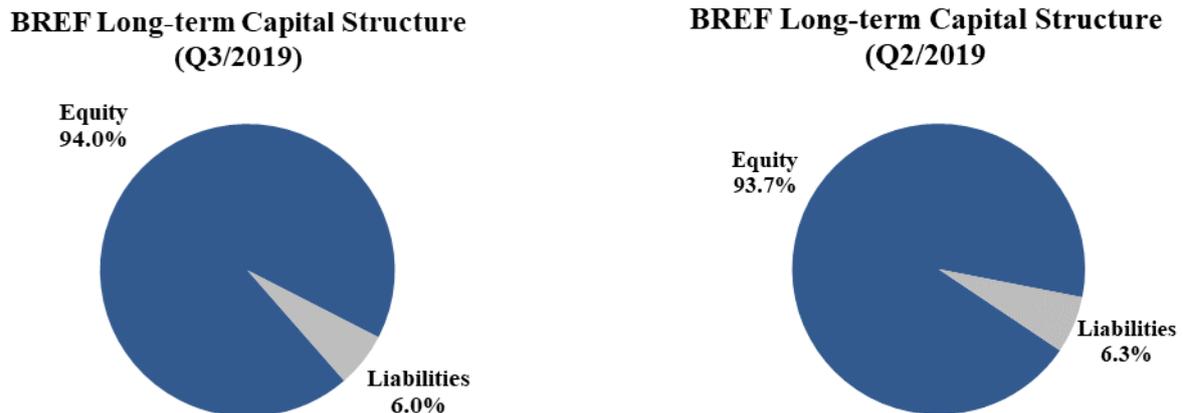
The external sources of liquidity are the own capital of the Company and the investment loan, described in details in p. 3.3 Capital resources

The Company has sufficient financial resources for its current needs, so as to fully ensure its operation in the next months. In the long-term perspective for the purpose of the accomplishment of the investment project for an office building in Sofia Tech Park during the next reporting periods the Company is planning to take out a new bank loan, in addition to the borrowed additional capital.

3.3 Capital resources

At the end of September 2019 the total long-term capital of the Company, both own and borrowed, recorded a minor change, reaching EUR 58 847 thousand. During the past quarter the structure of the long-term capital did not undergo a considerable change, the share of the borrowed capital being 6.0% and that of the own capital reaching 94.0%.

During the next reporting periods, with the achievement of new financial results and the continuing repayment of the principal under the utilised bank loan, the share of the own capital is expected to continue its growth. The distribution between the own capital and the borrowed funds for the last quarters is presented in the figures below.

Figure 2: Allocation between equity and external financing

Table 6 – Leverage ratios

Leverage ratios	30.09.2019	30.06.2019	31.03.2019	30.09.2018
Debt-to-Equity	0.08	0.12	0.12	0.10
Non-Current Assets-to-Equity ratio	0.82	0.79	0.79	0.79
Long-term-Debt-to-Non-Current-Ass	0.08	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 September 2019 the BREF own capital was in the amount in EUR 55 296 thousand, 1.04% more than the prior quarter. The change was a result of the profit generated by the Company in the period.

Table 7 – Total equity as of 30.09.2019, 30.06.2019, 31.03.2019 and 30.09.2018

Equity (in thousands)	30.09.2019	30.06.2019	31.03.2019	30.09.2018
Share capital	17,712	17,712	17,712	10,303
Share premium	30,361	30,361	30,361	37,772
Retained earnings	7,224	6,653	6,069	5,464
Total equity	55,296	54,726	54,142	55,538

Q3 did not see a significant change in the structure of the own capital of the company. The only change at the end of the reporting period was in the retained earnings.

■ External financing

During the third quarter 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 third quarter of 2019, the Company has regularly paid due instalments to the investment loan. The outstanding principal amount as of the end of the period was EUR 4.17 million.

■ Capital expenses during the next periods under review

After the issuance of the construction permit for the new office building in Sofia Tech Park the investment programme of the Company in the year is mainly focused on the implementation of the project.

After the development of the technical design and the completion of the main construction tenders the final budget of the project is expected to be determined, which, according to the preliminary information, is expected to exceed EUR 33 million without the construction right price.

In order to finance the above mentioned project the Company will use the new capital raised in the last year, and in addition will use borrowed capital.

As to the other 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 being planned, and in the two office buildings of the Fund in connection with the on-going repairs.

3.4 Asset structure

The sum of the BREF assets at the end of the third quarter dropped by 2.17% to EUR 59,807 thousand, as compared with the end of the prior quarter, when their value was EUR 61,134 thousand. The recorded decrease was a result of the reduced cash used for payment of the 2018 dividend. During the next reporting period, with the generation of additional income from rents, the assets are expected to increase, provided that the major increase of the assets would be observed in connection with the provision of external finance for the BREF investment programme.

Table 6 – Asset structure

Asset structure (thousand EUR)	30.09.2019	% share	30.06.2019	% share	31.03.2019	30.09.2018
Non-current assets incl.	45,230	75.63%	43,431	71.04%	42,920	42,037
- total property	42,321	70.76%	42,321	69.23%	42,321	41,758
- cost for acquisition of fixed assets	2,908	4.86%	1,108	1.81%	597	274
Current assets incl.	14,577	24.37%	17,702	28.96%	17,873	16,818
- VAT receivable	94	0.16%	49	0.08%	0	54
- trade receivable	308	0.52%	276	0.45%	235	197
- investment property held for sale	1,327	2.22%	1,607	2.63%	1,607	761
- cash and cash equivalents	12,786	21.38%	15,708	25.70%	15,989	15,782
Total assets	59,807	100%	61,134	100%	60,793	58,855

During the third quarter of 2019 the structure of the assets of the Company did not sustain a significant change as compared with the prior reporting period. The trend to increase the share of the long-term assets on account of the short-term ones was still in place. The change was a result of the increasing amount of the costs on acquisition of FTA on account of the amount of cash.

During the next reporting period the amount of the expenses on acquisition of FTA is expected to continue to increase, which will again be on account of the cash in short-term assets.

3.5 Financial Results

The BREF operation during 2019 Q3 was focused mainly on the management of the income-generating projects of the Company and organization of the implementation of the Sofia Tech Park project.

Revenue from operations

During the quarter under review the recorded income was EUR 1,335 thousand, which represented almost 30% increase from the prior quarter. The main reason for this was the fact that during the reporting period there was income from the sale of assets of the Company.

Table 9 – Revenue earned during 2019 and third quarter of 2018

Revenue (in thousand EUR)	Q3 - 2019	Q2 - 2019	Q1 - 2019	2019	Q3 2018
Income from sale of assets	295	-	-	295	21
Rental income	925	945	921	2,792	853
Other Income	-	1	7	8	1
Total revenue	1,335	946	929	3,094	875

During the last quarter the Rental income accounted for 75.82% of the income, taking up the biggest share. Its amount reached EUR 925 thousand and the decrease of 2.16% from the prior period was as a result of the absence of temporary income from the let out free office areas of one of the tenants in Kambanite Green Offices. The agreement for the additional office areas in Kambanite Green Offices of Survey Sampling Bulgaria will become effective in the next quarter, which will lead to increase of the income from rent.

Second was the Income from property sale item, including the income from the sale of 395 decares of agricultural land of the Fund and of a property in Borovets Resort.

In the absence of property sale, the income is expected to decrease during the next quarter, however the income from rent is expected to increase, which will be the result from the newly let out areas in Kambanite Green offices of Survey Sampling Bulgaria.

■ Expenses from operations

During the last quarter the total BREF expenses increased by 79.38% as compared with the prior reporting period, reaching EUR 649 thousand at period-end. The reason for the growth was the written off value of the sold properties.

Table 10 – Realized expenses by quarters

Expenses (in thousand EUR)	Q3 - 2019	Q2 - 2019	Q1 - 2019	2019	Q3 2018
Value of sold assets	(278)	-	-	(278)	(21)
Interest expense	(34)	(36)	(37)	(107)	(39)
Management fees	(152)	(134)	(134)	(420)	(147)
Materials expense	(1)	(1)	(12)	(14)	(2)
BOD and employees salaries expense	(21)	(20)	(20)	(61)	(19)
Other expenses	(163)	(171)	(156)	(490)	(129)
Total expenses	(649)	(361)	(359)	(1,370)	(357)

During the third quarter of 2019 the biggest share of the expenses, 42.83%, was the Book value of sold properties item, as a result of the sale of agricultural land of the company and of the property in Borovets resort. No entries are expected in this item during the next reporting period.

The Other expenses item was next accounting for 25.04%. The recorded decrease was a result of the lower expenses on repair works in the buildings 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 item is expected to keep its amount.

During the third quarter the fee of the managing company accounted for 23.46%, which increased as a result of the assessed success fee related to the successful sale of agricultural land. During the next reporting periods the amount of this item of the expenses is expected to return within the limits of the second quarter.

The expenses on interest accounted for 5.28%, which included interest paid and assessed under the Company loan. This item recorded 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 obligations under the loan.

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

■ Financial result

During the third quarter of 2019 the Company generated profit of EUR 571 thousand, the major contribution for this result being by the income from sale of properties and from rents. During the next reporting periods, with the expected increase of the income from rent, the Company profit is expected to register a minor increase.

Table 11 – Financial result by quarters

Financial Result	Q3 - 2019	Q2 - 2019	Q1 - 2019	2019	Q3 2018
Revenues	1,220	946	929	3,094	875
Expences	(649)	(362)	(359)	(1,370)	(357)
Net profit/loss for the period	571	584	570	1,724	518

The accounting profit divided by the adjusted average number of shares during the quarter gives the earning per share (EPS) of EUR 0.016.

Results per share (EUR '000)	2019 **	2018	2017
Earnings	1,724	3,281	2,147
Earnings per share (EPS)	0.050	0.136	0.107
Net asset value (NAV)	55,296	53,572	35,743
Adjusted commom shares outstanding	34,642	34,642	20,150
NAV per share	1.596	1.546	1.774
Dividend per share	0.0000	0.0174	0.0377
Share fair value*	1.596	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 slightly increased from EUR 1.547 per share at the end of 2018 to EUR 1.596 per share as at 30 September 2019, which increase was wholly on account of the generated profit during the last 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 a good return in the future.

Interest rate risk

As of the end of September 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 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 organize the construction bids.

4 Share performance

During the past third quarter of 2019 the price of the Bulgarian Real Estate Fund SPV shares slightly dropped by 3.85%, provided that during the prevailing part of the period they were traded between BGN 1.97 - 2.04. A total of 360 transactions were made during the quarter with shares of the company on the floor of the Bulgarian Stock Exchange.

During the third quarter of 2019, after the strong growth during the last years, the growth in the segment of SVP traded on the exchange continued to slow down. In 2019 BGREIT, the index monitoring the performance in the sector, increased by 1.79%, reaching 128.08 points. Despite the diverse stock exchange performance during the year, the companies investing in real estate continued to generate the interest of the investors and their shares were among the most traded in the floor of the Bulgarian Stock Exchange during 2019 Q3, both in terms of number of transactions and generated turnover.

Although the segment of SPV companies ended the third quarter of 2019 with a positive result, the main stock exchange index SOFIX ended the quarter with decrease of 0.7%, or 570.58.

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 01.10.2018 - 30.09.2019:

- Opening Price – BGN 1.950 (01 October 2018)
- Closing Price – BGN 2.000 (30 September 2019)
- Highest Price – BGN 2.180 (12 July 2018.)
- Lowest Price – BGN 1.840 (30 January 2019)
- Total Trading Volume – 2,989,239 shares
- Turnover for the period – BGN 5,823,668 (EUR 2,977,594)
- Weighted average price – BGN 1.948
- Market Capitalization (31.03.2019) – BGN 69,283,850 (EUR 35,424,270)

BREF Share Price Performance
(01.10.2018 - 30.09.2019)

