

“Bulgarian Real Estate Fund”

Third Quarter Summary Report



24 November 2017

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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 (30.09.2017)	Shares Outstanding
Bulgarian Stock Exchange Sofia	5BU (BREF)	EUR 24,004,898	20,150,000

2 Portfolio

BREF has engaged in numerous projects ranging in size, activity and geographical location. Our diversified portfolio may provide some protection from the ups and downs of individual properties such as occupancy rates, defaults on rents, and downturns in industry sectors or local markets.

2.1 Portfolio structure

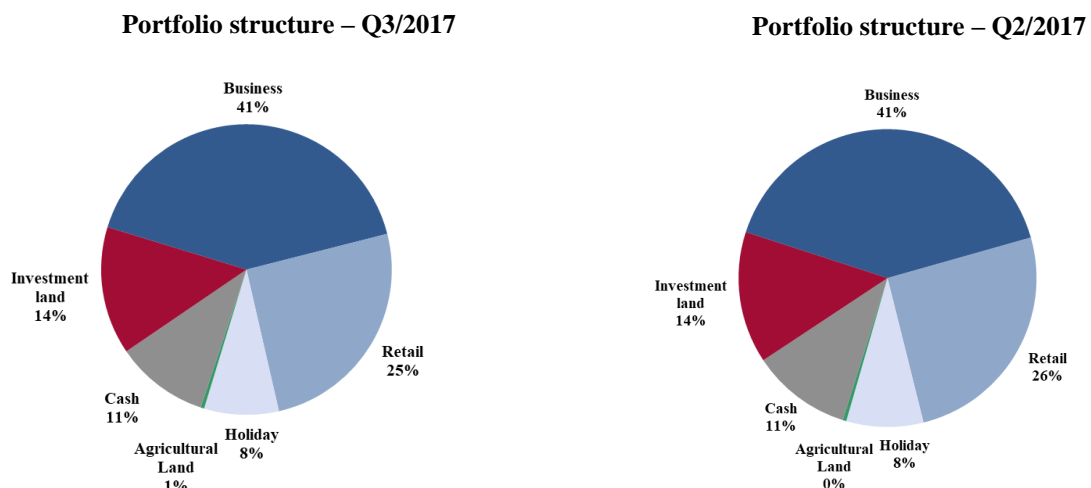
In the past quarter there were no significant changes in the Company's portfolio, as the new project for the development of an office building in Sofa Tech Park still does not have an impact on the portfolio structure of investment properties. At the end of the reporting period, the business properties kept the leading position with 41%. The commercial properties were second with a share of 25% and the investment properties third with 14%. It can be expected that following the completion of the deal for the acquisition of construction right for the office building in Sofia Tech Park, the business properties share will significantly increase at the expense of the cash.

The key highlights during the past quarter were as follows:

- Implementation of the activities foreseen in the signed preliminary agreement for the acquisition of construction rights in Zone 2 of the development plan of Sofia Tech Park, Sofia;
- Operational management of the Kambanite Office Building and organizing the finishing works of the building and the surrounding area;
- Active marketing of the Kambanite Office Building and concluding annexes for additional spaces for Adecco and Konica Minolta;
- Operational management of Building 1 in Business Park Sofia and renegotiations for the renewal of the expiring in 2018 leases;
- Operational management of the properties leased to Mr. Bricolage and upgrade of the installations in the Sofia store;
- Assessment of new investment opportunities on the office and residential markets;
- Searching for new investment projects of BREF.

The projects managed by BREF as of the end of September 2017 were ten, diversified in different sectors of the real estate market in Bulgaria.

Figure 1. Investment allocation in types of market sector



In the third quarter of 2017, 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 30.09.2017	Future investments
Current projects				
"Mr. Bricolage" - sale and leaseback	operational management	10,384	11,389	
Agricultural land	operational management	58	174	
Apartment house "Sequoia 2" - Borovetz	for sale	1,659	755	
Office building 1 - Business Park Sofia	operational management	7,410	7,891	51
Kambanite Office Building	operational management	8,873	10,141	26
Investment plots in Sofia - Mladost IV*	for sale	4,635	3,368	
Office building Sofia Tech Park	in acquisition	519	519	n.a
Pipeline projects				
Seaside Holiday Village	suspended	2,254	2,973	
Investment plots near Veliko Tarnovo*	suspended	192	622	n.a
Investment plots near Vidin*	suspended	301	631	n.a
Investment plots in Sofia - Mladost IV*	suspended	4,817	1,770	n.a
Total		41,103	40,234	77

* 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 Borovetz and part of the Investment plots in Sofia-Mladost IV are set for sale, and the Office building in Sofia Tech Park is in the acquisition process. The next group consists of projects in the pipeline or suspended and there is no progress on their development. Such projects are Seaside Holiday Village in Lozenetz, Investments plots near Veliko Tarnovo and Vidin, and those located in Sofia in Mladost IV district.

2.2 Project – "Mr. Bricolage" – sale and leaseback

In 2006, BREF concluded two "sale and leaseback" deals with the French "Do-It-Yourself" chain "Mr. Bricolage". The two stores are situated in Varna ("Mladost" residential area) and in Sofia ("Tsarigradsko shosse" Blvd.).

At the end of 2016 the loan used for financing of the project was fully repaid and currently the cash proceeds from rental income are at the full disposal of the Company.

The terms of both rent agreements are up to December 2021 and in 2013 a rent indexation with the HICP index of 27 countries for the previous year was introduced.

Project parameters:

"Mr.Bricolage" - sale and leaseback	Varna Store	Sofia Store	Total
Plot area:	12,184 sq.m.	15,174 sq.m.	27,358 sq.m.
Total built-up area:	5,375 sq.m.	7,610 sq.m.	12,985 sq.m.
Purchase amount:	EUR 4 M	EUR 6 M	EUR 10 M
Acquired in:	August 2006	November 2006	-
Indexation	HICP 27 countries	HICP 27 countries	HICP 27 countries
Expiry date of rent agreement	December 31st, 2021	December 31st, 2021	December 31st, 2021

Note: The mentioned purchase price excludes the acquisition costs of the properties.

The tenant paid all amounts due for the rent of both stores in the last quarter. Over the same period, the process of modernization of the heating installation in the Sofia store continued and that process is expected to be completed until the beginning of the new heating season.

2.3 Project – Agricultural Land

The total agricultural land owned by BREF as of the end of the third quarter is 404 dka. The rented out lands are 207.1 dka or 51% from the total land. The average annual rental price is approximately EUR 24.5 per dka.

Project parameters:

Agricultural land	
Total owned lands	404 dka
Investment	EUR 58,000
Acquisition price per dka	EUR 144

2.4 Project – Apartment house “Sequoia 2” - Borovetz

In 2007 BREF became an owner of “Sequoia 2” apartment house located in the oldest ski resort in Bulgaria – Borovetz. The total built-up area is 3,527.30 sq.m.

The “Sequoia 2” apartment house consists of 36 apartments situated on 5 floors and 9 garages. The Sequoia complex is situated close to a picturesque pine forest within walking distance to the very centre of the resort.

During the past quarter, one garage has been sold. The total area of the garage is 32.54 sqm and its sale price is EUR 8.6 thousand with VAT included. As of the end-September 2017, the total number of apartments sold is 10. The selling campaign for the remaining 26 residential units is running.

Project parameters:

Apartment house "Sequoia 2" - Borovetz	
Plot area	512 sq.m
Total built-up area	3,527 sq.m
Apartments left for sale	26
Current Investment	EUR 1.66 M

2.5 Project – Office building 1 – Business Park Sofia

In 2014 BREF acquired 7,318 square meters of office space and 68 parking spaces in Building 1 at Business Park Sofia, together with 64.45% shares of the land where the building is erected. All offices are situated in entrance B of the building. The company’s properties have a 100% occupancy rate and a total price of EUR 7.2 million.

In the last quarter, the Company was negotiating lease renewal for the agreements due to expire at the beginning of 2018.

During the three-month period, the Company continued the preparation for the lobby renovation project. It is expected that this will be achieved later this year. The Company has also scheduled a replacement of the roof waterproofing later this year.

Project parameters:

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

2.6 Project – Office Building Kambanite

The development of the company's new office building was completed in 2016. The property is situated on a plot of land with an area of 10,671 square meters located at the Malinova Dolina - Bunkera Villa Zone area, Sofia. The commercial name of the building is Kambanite Green Offices. The building has a total built-up area of 13,205 sq.m., of which the leasable office area and related premises occupy 9,356 sq.m. and the restaurant has an area of 420 sq.m. There are 214 parking spaces, of which 74 are in the underground parking area.

By the end of September 2017, the property occupancy rate was 80.25%. The two main tenants are Adecco Bulgaria EOOD and Konica Minolta with leased area of 6,902.31 square meters and 661.89 square meters respectively. The total number of leased parking spaces is 121, of which 42 are in the underground parking area. The tenant of the restaurant area is Victoria G 2011 EOOD. At the end of the reporting period, all the premises and parking spaces were delivered to their respective tenants. Negotiations are being held with other potential tenants who have demonstrated an interest in the new building.

During the quarter, some of the finishing works on the building have continued. The park area around the building and the interior design of the lobby were completed. In accordance with the construction agreements, the Company has retained construction guarantees, which are to be paid out in 2017-2018, as evidenced by the corresponding agreements.

In 2016, the Company secured a bank loan for financing the construction project amounting to BGN 11 million with Eurobank Bulgaria AD. By the end of September 2017, the outstanding principal amounts to BGN 10.45 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
Investment	EUR 8.87 M
Status	completed
Occupancy rate	80.3%

2.7 Project – Office building Sofia Tech Park

In the second quarter of 2017, the Company has won the tender carried out by Sofia Tech Park for the selection of preferred bidder for a construction right in Zone 2 of the development plan of the Sofia Tech Park. Following this development, the Company signed a preliminary agreement for the acquisition of the construction rights. Under the agreement, the total purchase price for the construction right acquisition is 9,652,000 BGN (4,934,989 EUR), payable in two installments – 10% at the preliminary agreement and the outstanding amount after the signature of the final agreement, which is expected to be finalized in the last quarter of 2017.

Meanwhile after the end of the reporting period, the Company signed the final agreement for the acquisition of the construction right. According to the concluded 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., and an area of land on which the granted construction right is realized, which is 8,140 sq.m. Under the provisions of the agreement, the Company is obliged to complete the building construction within 5 years from the date of the acquisition of the construction right.

After the acquisition of the construction right, the Company started with the development of the design project of the new building.

2.8 Project – Seaside Holiday Village

The project envisages the construction of Seaside Holiday Village on the Bulgarian shore. The project will be a gated community, which will consist of residential, retail and entertainment areas. It will include 291 apartments, two swimming-pools, two restaurants, and a retail and entertainment center.

As a result of the economic crisis, the current market conditions in the holiday resort sector and the large supply of properties on the Bulgarian Seacoast, BREF suspended the project.

Project parameters:

Seaside Holiday Village	
Plot area	28,758 sq.m
Project built-up area	17,963 sq.m
Current Investment	EUR 2.3 M

2.9 Project – Investment land plots near Veliko Turnovo

In 2006 the Company purchased properties with a total area of 203,249 sq.m. located on the main Sofia - Varna road, at a distance of 5 km from the town of Veliko Turnovo. The properties constitute agricultural land and are still not zoned. In 2015 the Company accomplished a transaction for the sale of part of the properties with an area of 24,445 square meters and in May 2016 second transaction for the sale of another 30,250 square meters was executed. The value of the second transaction is BGN 250 thousand. After the two sales the remaining properties owned by BREF have a total area of 148,554 square meters. 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	178,804 sq.m
Purchase price	EUR 192,000
Status	suspended

2.10 Project – Investment plots near Vidin

In 2006 BREF won in a tender procedure, executed by the Ministry of Defense, a land plot with total size of 86,008 sq.m. The acquired property is located near the ferry port of Vidin on the main road connecting the city to the ferry. Another key highlight is the proximity of the land plot to the newly built bridge over the Danube River.

Currently, the activity of the Fund regarding the future development of the property is suspended until more favorable market conditions arise.

Project parameters:

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

Currently, the Company owns 15 properties located on the Sofia ring road, at its intersection with Alexandar Malinov Boulevard, in the westward direction, opposite Business Park Sofia. After the disposal of one of the properties in 2016, The Company remained the owner of a total land area of 29,489 s.qm, of which 21,516 s.qm. are rezoned. The rest remain unregulated and intended for green areas. The construction parameters of the rezoned plots are: coefficient of intensity of 3.5 and construction density of 60%.

In December 2016 the Company executed two new preliminary agreements for the sale of two of the regulated plots of land at Mladost IV with an area of 13,471 sq.m, and an acquisition value of EUR 4,635 thousand. The agreed selling price was EUR 250 per sq.m. and the sale transactions are to be completed by the end of November 2017. During the last quarter, the buyer made one more advance payment and thus the funds paid in advance amount to EUR 1,9 million. Following the deal completion, the expected sale proceeds amount to EUR 1,47 million. After the sale completion, the Company will remain the owner of 16,018 sq.m of which 8,045 sq.m are rezoned, and the rest are unzoned, intended for green areas.

Currently, the activity of the Company regarding the project is suspended. The future development of the properties will be decided upon examination of the opportunities for their realization and finding of the best conditions for their use.

Project parameters:

Investment Plots, Sofia - Mladost IV district	
Total plots' area	29,489 sq.m
Purchase price	EUR 9.45 M
Status	suspended

3 Financial Highlights Q3/ 2017

3.1 Summarized Financial Statements

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

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

(All amounts in EUR '000)	30.09.2017	30.06.2017	31.03.2017
ASSETS			
Non-current Assets			
Investment property	35,262	35,262	35,348
Cost for acquisition of fixed assets	851	440	2
Plant and equipment	4	2	2
Intangible assets	5	-	-
Total Non-current Assets	36,122	35,704	35,352
Current Assets			
Investment property held for sale	4,123	4,129	4,128
Trade receivable	117	79	75
Cash and cash equivalents	4,665	4,840	4,443
Other current assets	50	67	19
Deferred expenses	11	8	13
Total Current Assets	8,965	9,124	8,678
TOTAL ASSETS	45,087	44,828	44,030
EQUITY AND LIABILITIES			
Equity			
Share capital	30,908	30,908	30,908
Share premium	3,244	3,244	3,244
Retained earnings	2,899	2,465	2,013
Total equity	37,051	36,617	36,165
Non-current liabilities			
Interest bearing loan	4,752	4,897	4,421
Other long-term liability	-	-	6
Total Non-current liabilities	4,752	4,897	4,427
Current liabilities			
Current part of non-current liabilities	580	576	680
VAT payable	14	7	60
Payables to management company	558	446	389
Payables to the personnel and SIC	1	1	1
Provisions for dividends due	-	760	760
Advance payments	1,900	1,300	1,300
Trade and Other current liabilities	231	224	248
Total Current liabilities	3,284	3,314	3,438
Total liabilities	8,036	8,211	7,865
TOTAL EQUITY AND LIABILITIES	45,087	44,828	44,030

Table 4 – P&L statement for the first three quarters and accumulated since the beginning of 2017

(All amounts in EUR '000)	Q3 - 2017	Q2 - 2017	Q1 - 2017	2017
Income from sale of assets	7	-	-	7
Rental income	801	781	772	2,353
Revenue from interest and other financial revenues	-	-	1	1
Other financial income	-	-	-	-
Other Income	-	2	7	8
Total Revenue	808	782	779	2,369
Value of sold assets	(7)	-	-	(7)
Interest expense	(46)	(48)	(41)	(135)
Management fees	(137)	(134)	(133)	(405)
Materials expense	(28)	(1)	(3)	(31)
BOD and employees salaries expense	(19)	(19)	(19)	(57)
Loss from fair value adjustments	-	-	-	-
Other expenses	(137)	(129)	(160)	(426)
Total expenses	(374)	(331)	(357)	(1,061)
Profit/(loss) for the period	434	451	422	1,308
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	0.022	0.022	0.021	0.065

3.2 Liquidity

Table 5 – Liquidity ratios as of 30th September 2017, 30th June 2017 and 31st March 2017.

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

During the past quarter, the liquidity ratios recorded slight decrease resulting mainly from the dividend payment for 2016 and the ongoing payments associated with the finishing works of the new Office Building Kambanite. The current ratio decreased slightly to 2.73, and the quick and cash ratios marked similar changes and dropped to 1.47 and 1.42 respectively.

The payment under the agreement for the acquisition of construction right in Sofia Tech Park and completion of the deal for the sale of the two land plots in Mladost IV-Sofia will be reflected in the next reporting period. It can be expected that these events will cause a significant drop in the liquidity ratios in the next reporting period.

■ Internal Sources of Liquidity

In the third quarter of 2017 the internal sources of liquidity demonstrated a decrease, particularly in the current assets item. The underlying cause for these changes are the lower amount of cash in the assets section and the decreased provisions due to the 2016 dividend payment, in the liabilities section

- **Short-term (current) assets**

Table 5A – Current assets as of 30th September 2017, 30th June 2017 and 31st March 2017.

Liquidity sources	30.09.2017	%	30.06.2017	%	31.03.2017
Current Assets					
Investment property held for sale	4,123	45.99%	4,129	45.26%	4,128
Trade receivable	117	1.30%	79	0.87%	75
Cash and cash equivalents	4,665	52.03%	4,840	53.05%	4,443
Other current assets	50	0.55%	67	0.74%	19
Deferred expenses	11	0.13%	8	0.09%	13
Total Current Assets	8,965	100%	9,124	100%	8,678

In the past quarter, the main change in the current assets item was observed in the cash position. As a result, the total value of the current assets decreased by 1.74% and reached EUR 8,965 thousand at the period end. The overall structure of the current assets did not change, with cash taking up the largest share of 52.03%. The main reason for this decrease, as mentioned earlier, are the repayment for the 2016 dividends and the costs related to the finishing works of the Kambanite office building. During the next reporting period, when the payments for the acquisition of construction right in Sofia Tech Park are reflected, the amount of cash is expected to drop significantly.

Investment properties come second with a share of 45.99%, with amount slightly decreased to EUR 4,123 due to a sale of one garage in Borovets. Included in this item are the book value of the residential building Sequoia 2 in Borovets and the value of the properties at Mladost 4 in Sofia, for which preliminary sale agreements were signed. During the next reporting period, following the completion of the sale of the properties at Mladost 4 in Sofia and after their derecognition from the balance sheet of the Copmany, the value of the investment properties is expected to drop significantly.

The Trade Receivables and Interests item was next with 1.30%. The positive change during this period resulted from new receivables from the tenants in the new building and accrued rents for the building in Business Park Sofia. The item is not expected to demonstrate substantial changes over the next reporting period.

The Other Receivables item also recorded a decrease during the last period. The main entries under this item were the advance payments for property taxes and fees. The recognition of the advance payments as expenses in the income statement at the year-end is expected to significantly decrease the value of this line.

Over the next reporting period, the total value of current assets is expected to drop significantly due to the expected decrease of the cash and the investment properties.

- **Short-term (current) liabilities**

Table 5B – Current liabilities as of 30th September 2017, 30th June 2017 and 31st March 2017.

Liquidity sources	30.09.2017	%	30.06.2017	%	31.03.2017	%
Current liabilities						
Current part of non-current liabilities	580	17.67%	576	17.37%	680	19.76%
VAT payable	14	0.44%	7	0.20%	60	1.74%
Payables to management company	558	16.99%	446	13.45%	389	11.32%
Payables to the personnel and SIC	1	0.02%	1	0.02%	1	0.03%
Provisions for dividends due	0	0.00%	760	22.94%	760	22.11%
Advance payments	1,900	57.85%	1,300	39.24%	1,300	37.81%
Trade and Other current liabilities	231	7.04%	224	6.77%	248	7.23%
Total Current Liabilities	3,284	100%	3,314	100%	3,438	100%

During the last quarter the total amount of the current liabilities decreased by 0.89%, reaching EUR 3,284 thousand at period-end. The major reason for this change was the payment of the 2016 dividend, the accumulated liabilities to the managing company and the change in the advance payments received by BREF. These changes led to the corresponding change in the

structure of the current liabilities, i.e. decrease of the share of the first type of liabilities and increase of the share of the second and third type of liabilities.

The advance payments under the preliminary agreements for the sale of both properties in Mladost IV, Sofia, accounting for 57.85% of the current liabilities, were first. These agreements stipulate that the sales are to be completed by the end of November 2017, when these advance payments will be recognized as income and the total sum of the sales will be carried into the income statement of the Company.

The payments due under the loan of the Company for the coming year were second, accounting for 17.67%. The recorded increase is a result of the increasing payments of the loan principal, as laid down in the repayment schedule.

The liabilities to the managing company also recorded an increase, reaching 16.99%. Their value grew to EUR 558 thousand, provided that the change was a result of the outstanding payments under the management fee for prior periods.

The trade and other liabilities increased their amount and their share in the current liabilities reached 7.04%. Out of the other entries in this item, the most significant were the Company liabilities under received guarantees under rental agreements or rents paid in advance, which will keep their amount in the next reporting periods.

During the next reporting period the amount of the current liabilities is expected to decrease with the completion of the transaction for the sale of both properties in Mladost 4, Sofia, provided that there will be an increase with the assessment of provisions for dividends for 2017.

■ External Sources of Liquidity

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

For the purpose of its ongoing projects, the Company has the financial resources that are sufficient to secure its operations over the next months. With regard to the development of the new investment project for an office building in Sofia Tech Park, the Company intends to rely both on capital raise and new external financing.

3.3 Capital resources

At the end of September 2017, the long-term capital of the Company, both equity and borrowed, recorded an increase of 0.70% to EUR 41,802 thousand. The change was driven by both the last period financial results and the lower value of the loan principal of the Company as respectively results in increase of the equity. During the last period, the structure of the long-term capital has changed – the share of borrowed funds recorded a decrease from 11.8% in the end of the previous quarter to its current level of 11.4%. Over the next reporting periods, with the achievement of new financial results and the ongoing repayment of the loan principal, it is expected that shareholder's equity will continue to rise. The distribution between equity and borrowed funds for the last two quarters is presented in the figures below.

Figure 2: Allocation between equity and external financing

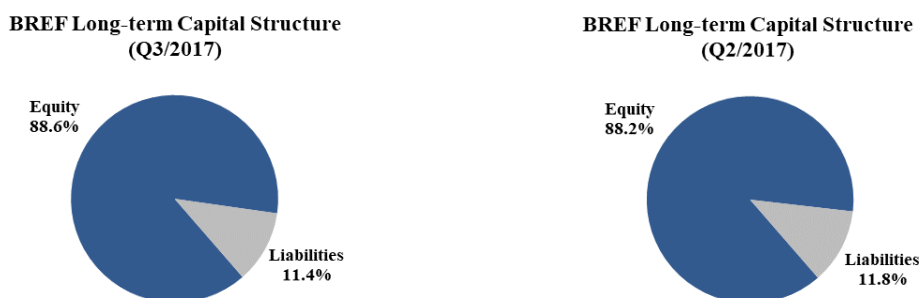


Table 6 – Leverage ratios

Leverage ratios	30.09.2017	30.06.2017	31.03.2017
Debt-to-Equity	0.22	0.22	0.22
Non-Current Assets-to-Equity ratio	0.97	0.98	0.98
Long-term-Debt-to-Non-Current-Asset ratio	0.13	0.14	0.13

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

■ Equity

At the end of September 2017, the equity of BREF is EUR 37,051 thousand, which represents an increase of 1.19% as compared to the prior quarter. The recorded increase is wholly due to the registered by the Fund profit for the period.

Table 7 – Total equity as of 30th September 2017, 30th June 2017 and 31st March 2017.

Equity (in thousands)	30.09.2017	30.06.2017	31.03.2017
Share capital	30,908	30,908	30,908
Share premium	3,244	3,244	3,244
Retained earnings	2,899	2,465	2,013
Total equity	37,051	36,617	36,165

■ External financing

From 2017 the Company has only one bank loan agreement concluded with Eurobank Bulgaria AD. The loan term is for 10 years and at the amount of BGN 11 million. The purpose of the loan is to finance the construction of the new office building of the Company situated at the Ring Road near Kambanite. The interest due on the loan is based on 3-month Sofibor + 3.1%. The grace period for the principal was until the end of 2016, and so its repayment started in 2017. The utilisation of the funds was in tranches, in compliance with the construction costs, and the total loan amount was utilised by the end of the previous reporting period. In the third quarter of 2017, the Company has regularly serviced the loan payments due. The outstanding principal amount as of the end-September was BGN 10.45 million.

■ Capital expenses during the next periods under review

During the next reporting period, in compliance with the executed final agreement with Sofia Tech Park AD, the largest capital expense of BREF will be the purchase of the construction right for an office building in the park. The value of the transaction is BGN 9,652,000, payable in two instalments - 10% after the preliminary agreement and the remainder after the execution of the final agreement. After acquisition of the construction right, the design phase will start and the project is expected to be completed in the next 5 years. The Company will finance the new project with its own funds and external financing.

The Capital expenses planned for Building 1 in Business Park Sofia, where replacement of the roof hydroinsulation of the whole building and renovation of the lobby are also in the pipeline.

3.4 Asset structure

The amount of the BREF assets by the end of the third quarter increased by 0.58% to EUR 45,087 thousand, as compared to the end of the prior quarter, when the amount of the assets was EUR 44,828 thousand. The recorded increase was mainly as a result of the realized net income during the period and the advances received under the executed preliminary agreements for the sale of the properties at Mladost 4 district in Sofia. Over the next reporting periods, with the generation of additional rental income and the completion of the deal for construction right acquisition in Sofia Tech Park, the growth of the Company assets is expected to continue. The net revaluations of the assets in the end of the year are expected also to have an impact on this item.

Table 6 – Asset structure

Asset structure (thousand EUR)	30.09.2017	% share	30.06.2017	% share	31.03.2017	% share
Non-current assets incl.	36,122	80.12%	35,704	79.65%	35,352	80.29%
- total property	35,262	78.21%	35,262	78.66%	35,348	80.28%
- cost for acquisition of fixed assets	851	1.89%	440	0.98%	2	0.00%
Current assets incl.	8,965	19.88%	9,124	20.35%	8,678	19.71%
- trade receivable	117	0.26%	79	0.18%	75	0.17%
- investment property held for sale	4,123	9.14%	4,129	9.21%	4,128	9.38%
- cash and cash equivalents	4,665	10.35%	4,840	10.80%	4,443	10.09%
Total assets	45,087	100%	44,828	100%	44,030	100%

The recorded change in the structure in the assets in the past quarter is a result mainly of the decreased amount of cash and increased amount of the expenses on FTA acquisition. As a result of all those changes, the share of the current assets dropped as low as 19.88% and the share of the non-current assets increased. Change was also observed in the internal structure of both types of assets, with reduction of the share of cash and increase of the expenses on FTA acquisition. The main reason for the development of the second item is the recorded additional capital expenditures for the Kambanite office building and the recorded advance payments for the acquisition of the construction right in Sofia Tech Park.

During the next reporting period significant change is expected in the structure of the assets, which will be the result of the completion of the transactions for acquisition of the construction right for the Sofia Tech Park and the sale of both properties in Mladost 4. As a result of this the current assets will decrease, in particular cash and investment properties, and the non-current assets will increase in the properties item.

3.5 Financial Results

The operation of the Company during third quarter of 2017 was mainly focused on the management of projects currently generating revenues for the Company, the finishing works of the Office Building Kambanite and the completion of the construction right acquisition in Sofia Tech Park.

■ Revenue from operations

During the quarter under review the main changes in the revenue of the Fund are in the increased amount of rental income and the proceeds from the sale of a garage in Borovets. As a result of these changes, the total amount of the revenue increased, reaching EUR 808 thousand, which is an increase of 3.27% from the prior quarter.

Table 9 – Realized revenues by quarters and accumulated since the beginning of 2017.

Revenue (in thousand EUR)	Q3 - 2017	Q2 - 2017	Q1 - 2017	2017
Income from sale of assets	7	-	-	7
Rental income	801	781	772	2,353
Revenue from interest and other financial revenues	-	-	1	1
Other financial income	-	-	-	-
Other Income	-	2	7	8
Total revenue	808	782	779	2,369

The greatest share, or 99.18%, during the past quarter was that of the rental income. Its amount reached EUR 801 thousand, 2.62% more than the previous quarter. The recorded increase is a result of the new rents from the Kambanite Office Building, in particular, income under the rental agreement for the restaurant in the building. According to the agreements currently in force, the expected rental income from this property for 2017 is approximately EUR 0.92 million. Another type of revenue under this item is the one from rent of the Mr Bricolage stores in Sofia and Varna. The rental income is expected to grow slightly during the next reporting period.

Out of the remaining revenue, the largest change is observed in the item Income from sale of assets, where the increase, as stated above, was a result of the sale of a garage in the Sequoia 2 residential building in Borovets.

The revenue is expected to increase significantly during the next quarter, the major reason for this being the accounting of the sale of the properties in Mladost 4, Sofia, which is expected to be completed in November 2017. Additional increase during the next year may occur with the rent of new offices in the Kambanite Office Building, as well as with the extending of some of rental agreements for Building 1 in Business Park Sofia expiring in early 2018, at better rental prices.

■ Expenses from operations

During the past quarter the total expenses of BREF increased by 12.91%, reaching EUR 374 thousand, which increase was a result of the increased expenses on the maintenance of the new office building in the Other expenses item, the sale of a garage in Borovets and the larger expenses on utilities for the new office building of the Company.

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

Expenses (in thousand EUR)	Q3 - 2017	Q2 - 2017	Q1 - 2017	2017
Value of sold assets	(7)	-	-	(7)
Interest expense	(46)	(48)	(41)	(135)
Management fees	(137)	(134)	(133)	(405)
Materials expense	(28)	(1)	(3)	(31)
BOD and employees salaries expense	(19)	(19)	(19)	(57)
Other expenses	(137)	(129)	(160)	(426)
Total expenses	(374)	(331)	(357)	(1,061)

In the third quarter of 2017 the largest share, 36.76%, of the expenses was that of the fee of the managing company. This item of the expenses remained at the same level, as in the prior quarter, which is expected as a trend in the future accounting periods.

The Other Expenses item was second, accounting for 36.68% of the expenses. The recorded increase is a result of additional costs related to the management and maintenance of the new office building of the Company. These expenses will continue to grow until completion of the property maintenance programme. In addition, increase was registered in the tax expenditures related to the new building. Out of the remaining expenses recorded in this item the largest share was taken up by the property taxes. Other significant expenses under this item included expenses for external property management and maintenance services for the remaining properties, bank charges, and other administrative expenses.

The expenses on interest, including paid and assessed interest under the Company loan, accounted for 12.18%. This item recorded decrease as a result of the decreasing amount of the principal of the new loan of the Company.

The major factors, which will lead to increase of the expenses during the next reporting period, are the generated additional expenses on the management and maintenance of the Kambanite Office Building and the increased costs related to the kick off of the new project in Sofia Tech Park.

■ Financial result

During the third quarter of 2017, the Company realised a profit of EUR 434 thousand and the main contributor to this result was the income from rents.

During the next reporting periods, with the additional increase of the proceeds from rent from the Kambanite office building, the total financial result of the Company is expected to grow, provided the sale of the properties in Mladost 4 will not lead to change, because their selling price is already reflected in their book value.

The financial result during the last quarter of the year will depend mainly on the generated higher revenue from rent, and respectively the greater expenses on property management, as well as on the reporting of the net result from the revaluation of assets of the Company by the end of the year.

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

Financial Result	Q3 - 2017	Q2 - 2017	Q1 - 2017	2017
Revenues	808	782	779	2,369
Expenses	(374)	(331)	(357)	(1,061)
Net profit/loss for the period	434	451	422	1,308

The accounting profit divided by the adjusted average number of shares during the period gives the earning per share (EPS) of EUR 0.022.

Results per share (EUR '000)	2017 **	2016	2015	2014
Earnings	1,308	2,147	1,027	(1,893)
Earnings per share (EPS)	0.065	0.107	0.051	(0.094)
Net asset value (NAV)	37,051	35,743	34,357	34,152
Adjusted common shares outstanding	20,150	20,150	20,150	20,150
NAV per share	1.839	1.774	1.705	1.695
Dividend per share	0.0000	0.0377	0.0408	0.0000
Share fair value*	1.839	1.812	1.746	1.695

* Share fair value = NAV per share + Dividend per share

** Net asset value for 2017 is per non-audited financial statements, while for 2013-2016 according to audited financial statements

According to the non-audited financial statements of the Company, the Net Asset Value per share (NAV) at the end of September 2017 increases from 1.774 to EUR 1.839 per share, mainly due to the realized profit from 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 good return in the future.

Interest rate risk

As of the end of September 2017, considering the investment bank loan of the Fund, it is exposed to interest rate risk regarding possible changes in the interest rate levels. The Fund is constantly monitoring the changes in the level of SOFIBOR and if needed is ready to renegotiate the financing parameters.

Foreign currency risk

The management of BREF considers that the fund's exposure to foreign exchange risk is minimal due to the fact that the majority of foreign transactions are denominated in Euro, which is currently fixed at BGN 1.95583 for 1 EUR.

Liquidity risk and cash flow risk

The company is exposed to liquidity risk with regard to paying off its current liabilities. At current, due to the secured additional bank financing the Fund has enough available funds to finance its operative and investment activity.

Credit risk

The credit risk, or the risk arising from the opportunity that the Fund does not receive the financial assets in the agreed amount, is minimized by reaching financial relationships with various contractors with a high credit score. In order to secure its receivables under the operative lease agreements, the Company requires from the tenants to provide a deposit or a bank guarantee. In addition, the receivables under the operating leasing are subject to continuous monitoring, as a result of which the exposure of the Company to non-collected receivables is minimized. The major credit risk to which the Company is exposed, related to the other financial assets (other than trade receivables), arises as a result of the deposits opened with the bank institutions.

Construction risk

Due to the start of a new project for the construction of an office building in Sofia and due to the risk of change in the price of materials, design, construction and delay of construction, or non-compliance with the preliminary design, we believe that the Fund will be also exposed to construction risk that may affect the profitability of BREF. In order to reduce the construction risk, the Company will retain a company specialised in project management and will use online platforms to organise the construction bids.

The Company will be exposed to the above-mentioned main risks and uncertainties during the current financial year.

■ *Ecological standards, followed by BREF*

In order to minimize the environmental impact of its projects, in the course of design and construction of its last office building the Company complies with the requirements of the American standard for green buildings LEED. The expectations of the Company are that the Kambanite Office Building will be issued the LEED Gold Certificate, which indicates significant reduction of water, electricity and gas consumption of the building.

4 Share performance

In the third quarter of 2017, the shares of BREF continued their good performance and their price rose by 4.48% in the period, and the annual growth reached 18.51%. The excellent performance of the shares during the past quarter reflected the good prospects of the company in view of its investment projects as well as the continuing recovery of the real estate market in Bulgaria and the intensive demand for quality office areas in Sofia.

Following a solid performance during 2016, the sector of the REITs marks an average performance during 2017. The BGREIT index, which reflects the performance of the REITs, has increased by only 0.97% for the period July-September which marks another quarter of growth reaching 114.97 points. Nevertheless, the companies investing in real estate continue to attract attention from the investors, and their shares remain one of the most-traded on Bulgarian Stock Exchange -Sofia.

Overall, the capital market demonstrated an average performance in the last period. The SOFIX index decreased slightly by -2.18% reaching 688.11 points during the last three months, and the broad index BGBX 40 added 0.09% to its value, thus reaching 134.34 points at period-end. On a yearly basis the indexes growth is still significant – 36.37% of SOFIX and 39.81% of BGBX 40. The positive trends led to considerable growth of trade at the Bulgarian Stock Exchange, Sofia, and the realized turnover on the regulated market for the third quarter of 2017 reached BGN 225 million.

The major risk factors that the Bulgarian economy and in particular the public companies on the capital market face are related to the weak or absent economic growth in the EU – the major trade partner of Bulgaria, and to the insufficient short-term and long-term investments in Bulgaria.

Summarized trading details for the 52-week period – 1st October 2016 – 30th September 2017:

- Opening Price – BGN 1.966 (30 September 2016r.)
- Closing Price – BGN 2.330 (29 September 2017r.)
- Highest Price – BGN 2.430 (10 August 2017r.)
- Lowest Price – BGN 1.962 (04 October 2016r.)
- Total Trading Volume – 3,214,790 shares
- Turnover for the period – BGN 7,185,896 (EUR 3,674,090)
- Weighted average price – BGN 2.235
- Market Capitalisation (29.09.2017) – BGN 46,949,500 (EUR 24,004,898)

BREF Share Price Performance
(30.09.2016 - 29.09.2017)

