

“Bulgarian Real Estate Fund”

First Half Summary Report



31 August 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 (30.06.2017)	Shares Outstanding
Bulgarian Stock Exchange Sofia	5BU (BREF)	EUR 22,974,645	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.

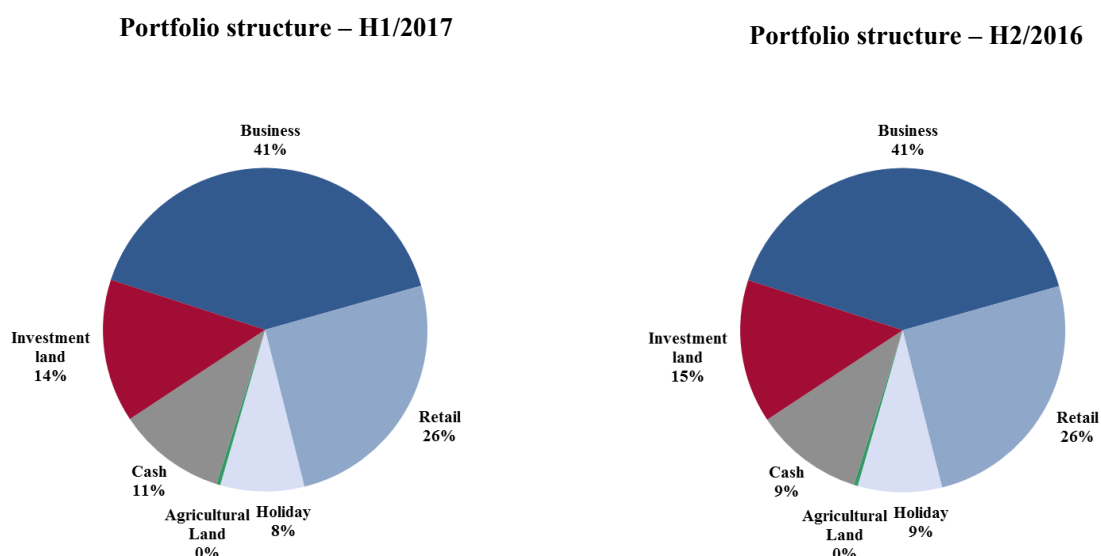
2.1 Portfolio structure

The main change in the Company's portfolio from preceding period was the start of a new development project in the business properties sector. The project is the development of a new office building located in Sofia Tech Park. During the first six-month period, the new project still does not have an impact on the portfolio structure, which remained the same with slight changes in the shares of cash, investment and holiday properties. The primary reason for the observed changes is the accumulated additional cash resource resulting from rental income and the second payment received under the preliminary agreement for property sales. 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 26% and the investment properties third with 14%. It can be expected that, by the end of the year, after 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 half year were as follows:

- Signature of a 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 reconstruction of the restaurant area according to the tenant's requirements;
- 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 in Sofia;
- Searching for new investment projects of BREF.

The projects managed by BREF as of the end of June 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 first six-month period 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 30.06.2017	Future investments
Current projects				
"Mr. Bricolage" - sale and leaseback	operational management	10,384	11,389	0
Agricultural land	operational management	58	174	0
Apartment house "Sequoia 2" - Borovetz	for sale	1,665	762	0
Office building 1 - Business Park Sofia	operational management	7,410	7,891	51
Kampanite Office Building	in construction	8,787	10,055	51
Investment plots in Sofia - Mladost IV*	for sale	4,635	3,368	0
Office building Sofia Tech Park	in acquisition	194	194	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		40,699	39,829	102

* 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 Kampanite office building are currently operational. Apartment house "Sequoia 2" in Borovets 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.

In the first six-months period, the tenant has regularly paid the amounts due under the lease agreements. Over the same period, the Company has started the modernization of the heating installation in the Sofia store 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 first half of the year 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 six-month period, no apartments were sold and as of the end-June 2017, the total number of apartments sold is ten. The selling campaign for the remaining 26 residential units is running. In the meantime, after the end of the reporting period, one garage has been sold. The total area of the property is 32.54 sq.m. and its sale price is EUR 8.6 thousand with VAT included.

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 1.67 M

2.5 Project – Office building 1 – Business Park Sofia

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

In the first half of 2017, the Company was negotiating lease renewal for agreements due to expire at the beginning of 2018.

During the six-month period, the Company started 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 - Buisness Park Sofia	
Built-up area - offices	7,318 sq.m
Parking lots	68
Acquisition price	EUR 7.2 M
Occupancy rate	100%

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 13,498 sq.m., of which the leasable office area and related premises occupy 9,583 sq.m. and the restaurant has an area of 425 sq.m. There are 214 parking spaces, of which 74 are in the underground parking area.

By the end of June 2017, the property occupancy rate was 72.42%. The two main tenants are Adecco Bulgaria EOOD and Konica Minolta with leased area of 6,216 square meters and 606 square meters respectively. The total number of leased parking spaces is 113, 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 six-month period, some of the finishing works on the building have continued. The park area around the building was completed. The recovery of the road pavement damaged during the construction works and the interior design of the lobby were also 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 June 2017, the Company had fully utilized the loan amount. The terms of the loan are described in article 3.3 below.

The tender for selection of a facility manager of the new building was held during the last year. The winner is FIRST FACILITY BULGARIA EOOD. Over the six-month period, the company was engaged to organize the commissioning of the building and to plan its maintenance.

Project parameters:

Office Building Kambanite	
Built-up area	13,498 sq.m
Leasable office area	9,583 sq.m.
Parking lots	214
Investment	EUR 8.8 M
Status	completed
Occupancy rate	72.4%

2.7 Project – Office building Sofia Tech Park

In the second half 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, in the end of the reporting period, 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.

According to the tender procedure and the preliminary agreement, the Company will acquire 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 sq.m., 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. The Master plan of the Sofia Municipality requires that green areas should be at least 40% of the plot. Under the provisions of the preliminary agreement, the Company is obliged to complete the building construction within 5 years from the date of the final agreement for the acquisition of the construction right. Furthermore, at least 30% of the office space shall be used by companies that run R&D in the priority areas of the tech park and are classified as high-tech or medium-high-tech companies as stipulated by the EU indicators.

Currently, the Company is developing the preliminary project of the building, which is a required condition for the conclusion of the final agreement.

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 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 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	148,554 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 six-month period, the buyer made one more advance payment and thus the funds paid in advance amount to EUR 1,3 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.

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

3 Financial Highlights H1/ 2017

3.1 Summarized Financial Statements

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

Table 3 – Balance sheet as of 30th June 2017 and 31st December 2016.

(All amounts in EUR '000)	30.06.2017	31.12.2016
ASSETS		
Non-current Assets		
Investment property	35,262	35,261
Cost for acquisition of fixed assets	440	-
Plant and equipment	2	2
Total Non-current Assets	35,704	35,263
Current Assets		
Investment property held for sale	4,129	4,128
Trade receivable	79	58
Cash and cash equivalents	4,840	3,903
Other current assets	67	13
Deferred expenses	8	11
Total Current Assets	9,124	8,113
TOTAL ASSETS	44,828	43,376
EQUITY AND LIABILITIES		
Equity		
Share capital	30,908	30,908
Share premium	3,244	3,244
Retained earnings	2,465	1,592
Total equity	36,617	35,743
Non-current liabilities		
Interest bearing loan	4,897	4,559
Other long-term liability	-	79
Total Non-current liabilities	4,897	4,638
Current liabilities		
Current part of non-current liabilities	576	540
VAT payable	7	108
Payables to management company	446	653
Payables to the personnel and SIC	1	4
Provisions for dividends due	760	760
Prepayments by clients	1,300	782
Trade and Other current liabilities	224	149
Total Current liabilities	3,314	2,995
Total liabilities	8,211	7,633
TOTAL EQUITY AND LIABILITIES	44,828	43,376

Table 4 – P&L statement for the first half of 2017 and for the second half of 2016

(All amounts in EUR '000)	H1 - 2017	H2 - 2016
Income from sale of assets	-	-
Rental income	1,552	1,096
Revenue from interest and other financial revenues	1	2
Other financial income	-	7
Other Income	8	1,331
Total Revenue	1,561	2,436
Value of sold assets	-	-
Interest expense	(89)	(60)
Management fees	(268)	(264)
Materials expense	(3)	(5)
BOD and employees salaries expense	(38)	(47)
Loss from fair value adjustments	-	-
Other expenses	(288)	(273)
Total expenses	(688)	(648)
Profit/(loss) for the period	873	1,788
Adjusted weighted average number of shares in the period (in thousands)	20,150	20,150
Earnings per share - basic and diluted	0.043	0.089

3.2 Liquidity

Table 5 – Liquidity ratios as of 30th June 2017 and 31st December 2016

Liquidity Ratios	30.06.2017	31.12.2016
Current ratio	2.75	2.71
Quick ratio	1.51	1.33
Cash ratio	1.46	1.30

During the past six-month period, the liquidity ratios recorded an increase resulting from the higher amount of cash on the balance sheet of the Company. The main reason for this increase is the advance payment received under the preliminary agreements for the sale of two properties at Mladost IV in Sofia. The current ratio slightly increases to 2.75, while the quick and cash ratios recorded more substantial changes, reaching 1.51 and 1.46 respectively. The payment under the agreement for the acquisition of construction right in Sofia Tech Park and the dividend repayment for 2016 will be due in the next reporting period, which is expected to cause a significant drop in the liquidity ratios.

■ Internal Sources of Liquidity

Over the six-month period, the internal sources of liquidity demonstrated an increase, particularly in the current assets item. These changes occurred as a result of the higher amount of cash in the assets section and the advance payment received under the executed preliminary agreements for the sale of the properties in the liabilities section.

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

Table 5A – Current assets as of 30th June 2017 and 31st December 2016

Liquidity sources	30.06.2017	%	31.12.2016	%
Current Assets				
Investment property held for sale	4,129	45.26%	4,128	50.88%
Trade receivable	79	0.87%	58	0.72%
Cash and cash equivalents	4,840	53.05%	3,903	48.11%
Other current assets	67	0.74%	13	0.16%
Deferred expenses	8	0.09%	11	0.13%
Total Current Assets	9,124	100%	8,113	100%

In the first half of 2017, the main change in the current assets item was observed in the cash position. As a result, the total value of the current assets increased by 12.46% and reached EUR 9,124 thousand at the period end. Those changes also led to a change in the overall structure of the current assets, with cash taking up the largest share of 53.05%. The main reason for this increase, as mentioned earlier, are the advance payments received under the preliminary sale agreements for plots of land at Mladost IV in Sofia, and the additional cash proceeds from rents of the new office building. During the next reporting period, with the dividend repayment for 2016 and the payments under the agreement for the acquisition of construction right in Sofia Tech Park, the amount of cash is expected to drop significantly.

Investment properties come second with a share of 45.26%. 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, with the sale of the properties at Mladost 4 district in Sofia, the value of the investment properties item in the balance sheet is expected to drop significantly.

The Trade Receivables and Interests item was next with 0.87%. The positive change during this period resulted from advanced payments for electricity and gas to their respective suppliers for the new office building Kambanite. Other receivables under this item represent primarily receivables from tenants and accrued interests on deposits. The item is not expected to demonstrate substantial changes over the next reporting period.

The Other Receivables item also recorded a significant increase during the last six-month 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 lower amount of cash.

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

Table 5B – Current liabilities as of 30th June 2017 and 31st December 2016

Liquidity sources	30.06.2017	%	31.12.2016	%
Current liabilities				
Current part of non-current liabilities	576	17.37%	540	18.03%
VAT payable	7	0.20%	108	3.60%
Payables to management company	446	13.45%	653	21.80%
Payables to the personnel and SIC	1	0.02%	4	0.12%
Provisions for dividends due	760	22.94%	760	25.38%
Prepayments by clients	1,300	39.24%	782	26.10%
Trade and Other current liabilities	224	6.77%	149	4.97%
Total Current Liabilities	3,314	100%	2,995	100%

During the last six-month period, the total value of the current liabilities period increased by 10.64%, reaching EUR 3,314 thousand at period-end. This was caused mainly by the higher current portion of non-current liability under the loan principal, the non-current liabilities to construction companies transferred to current liabilities, and the change in the amount received by the Company as advance payments. These changes led to the corresponding change in the structure of the current liabilities, associated with the increase of the trade liabilities and the advances received. The latter in turn remains the largest current liabilities with a share of 39.24%. Included in this item are the advance payments received under the preliminary property sale agreements for two plots of land at Mladost IV in Sofia. Under the agreements, the completion of the final sales will be by the end of November 2017 for both plots, and thus these advances will be recognized as income and the sales proceeds will be transferred to the income statement of the Company.

Ranked at the second place, with a share of 22.94% of the current liabilities were the Provisions for dividends due for 2016, which amounted to EUR 760 thousand. The calculated amount represents 90% of the transformed financial result, determined in accordance with art.10 of the Special Purpose Vehicles Act. The amount for distribution as dividend for 2016 was voted at the regular General Meeting of the Shareholders on 29th of May 2017 and the payment is about to be made.

The current part of non-current liabilities under the Company investment loan was the next item with a share of 17.37%. The recorded increase results from the higher amount of payable principal on the investment loan.

The payables to the management company, an intermediary for the construction of the new building, were second with a share of 13.45%, a decrease from prior period. The greatest share of the payables in this item was associated with the construction of the new project, and consisted of retained funds payable to the construction companies, which serve as performance guarantees. The observed significant decrease during the six-month period resulted from repaid current liabilities under the construction contracts and repaid liabilities for management fee, which were pending from the prior reporting periods.

The value of trade and other liabilities have increased, and their share in the current liabilities item amounts to 6.77%. The underlying cause of the increase are the retained guarantees in connection with the construction of the new building, which were transferred from non-current to current liabilities. The most notable from the other entries to this item are the received guarantees and advances under the new rental agreements, with their value expected to be maintained over the next reporting periods.

In the next reporting period, the Company foresees that the value of current liabilities will decrease. The main reasons for this change will be the completion of the sale deal for the two plots at Mladost 4 in Sofia, and the payment of the retained guarantees in connection with the construction of the new office building.

■ 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 year. With regard to the development of the new investment project, the Company intends to rely both on own financial resources and new external financing.

3.3 Capital resources

At the end of June 2017, the long-term capital of the Company, both equity and borrowed, recorded an increase of 3.01% to EUR 41,514 thousand. The change was driven by both the last period financial results and the higher value of the loan principal. During the last six-month period, the structure of the long-term capital has changed – the share of borrowed funds

recorded an increase from 11.3% in the end of 2016 to its current level of 11.8%. 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 start to rise. The distribution between the equity and the borrowed funds is presented in the figure below.

Figure 2: Allocation between equity and external financing

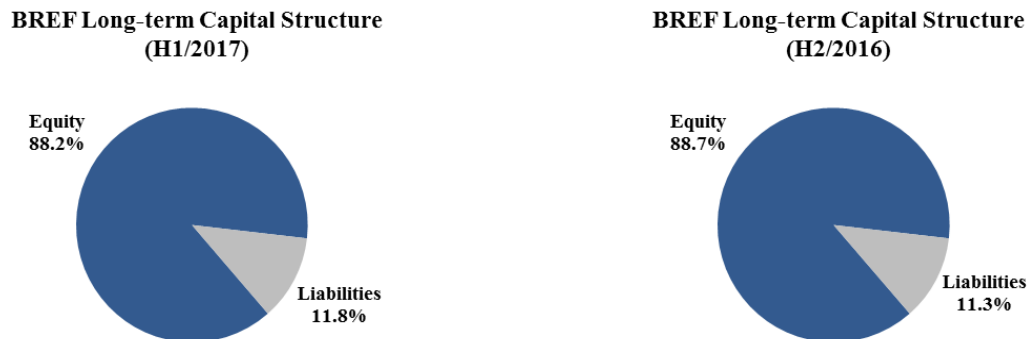


Table 6 – Leverage ratios

Leverage ratios	30.06.2017	31.12.2016
Debt-to-Equity	0.22	0.21
Non-Current Assets-to-Equity ratio	0.98	0.99
Long-term-Debt-to-Non-Current-Asset ratio	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 June 2017 the equity of the Company was EUR 36,617 thousand, which represents an increase of 2.44% when compared to the prior period. The recorded increase is wholly due to the earned profit for the period.

Table 7 – Total equity as of 30th June 2017 and 31st December 2016

Equity (in thousands)	30.06.2017	31.12.2016
Share capital	30,908	30,908
Share premium	3,244	3,244
Retained earnings	2,465	1,592
Total equity	36,617	35,743

■ 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 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. 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 reporting period.

By the end of 2016, the Company had successfully repaid the other investment loan, used for the acquisition of the Mr. Bricolage stores and it will be removed from the Company reports as of 2017. The loan was in the amount of EUR 7 million and was received for a period of 10 years.

■ Capital expenses during the next periods under review

In the next reporting period, according to the concluded preliminary agreement with Sofia Tech Park, the largest capital expenditure of the Company will be the acquisition of the construction right for the new building in Sofia Tech Park. The acquisition price is EUR 4,934,989, due in two installments - 10% at the signature of the preliminary agreement and the remainder at the signature of the final agreement, which must be finalized within the last quarter of the year. The total construction budget will be determined following the acquisition of the construction right and the development of the design project. The construction project is to be completed within the next 5 years.

With regard to the other projects, capital expenditures will be mainly for the completion of certain finishing works of the new office building Kambanite and for Building 1 in Business Park Sofia, where a replacement of the entire roof waterproofing and renovation of the lobby are already scheduled.

3.4 Asset structure

The value of the Company assets by the end of the first half of the year increased by 3.35% to EUR 44,828 thousand compared to the result at the end of the prior period when the assets value amounted to EUR 43,376 thousand. The recorded increase was a result of the accumulated additional cash from rents 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 period, with the generation of additional rental income, the growth of the Company assets is expected to continue.

Table 6 – Asset structure

Asset structure (thousand EUR)	30.06.2017	% share	31.12.2016	% share
Non-current assets incl.	35,704	79.65%	35,263	81.30%
- total property	35,262	78.66%	35,261	81.29%
- cost for acquisition of fixed assets	440	0.98%	0	0.00%
Current assets incl.	9,124	20.35%	8,113	18.70%
- trade receivable	79	0.18%	58	0.13%
- investment property held for sale	4,129	9.21%	4,128	9.52%
- cash and cash equivalents	4,840	10.80%	3,903	9.00%
Total assets	44,828	100%	43,376	100%

The registered change in the asset structure over the last six-month period resulted from the increased amount of cash, and the expenses on the acquisition of FTA. The overall effect of these changes is shown by an increase in the current assets item, reaching 20.35%, and a decrease in the share of the non-current assets. Accordingly, a change in the internal structure of the two asset types occurred with increasing shares of cash and expenses on the acquisition of FTA. A significant role in the formation of the second item belongs to the additional capital expenditures in connection with the Kambanite office building and the advance paid under the agreement for acquisition of construction right in Sofia Tech Park.

During the next reporting period, with the completion of the agreement for the acquisition of construction right in Sofia Tech Park, a significant change in the assets structure is expected to occur. As a result of this transaction, the current assets, particularly cash will be significantly reduced, and thus the non-current assets are expected to rise in the Properties item.

3.5 Financial Results

The operation of the Company during the first half of 2017 was mainly focused on the management of projects currently generating revenues for the Company, and the finishing works of the new office building Kambanite.

■ Revenue from operations

During the reviewed six-month period, the main change in the revenue of the Company was from higher rental income and the absence of property revaluations, which are reviewed on a yearly basis at each financial year-end. As result of these changes, the total revenue amounted to EUR 1,561 thousand, which was a decrease by 35.93% compared to the prior period.

Table 9 – Realized revenues for the first half of 2017 and for the second half of 2016

Revenue (in thousand EUR)	H1 - 2017	H2 - 2016
Income from sale of assets	-	-
Rental income	1,552	1,096
Revenue from interest and other financial revenues	1	2
Other financial income	-	7
Other Income	8	1,331
Total revenue	1,561	2,436

During the first half of the year, the greatest share of the revenue was from rental income with as much as 99.44%. The rental income amounted to EUR 1,552 thousand, which was an increase of 41.60% when compared to the prior period. The recorded growth is entirely due to rental income earned from the new office building Kambanite. Beginning in 2017, except for the restaurant, all other rented areas were handed over to their respective tenants and are currently generating income for the Company. According to the rental agreements in place as of the end of June, the expected income from the new building in 2017 is EUR 869 thousand. Over the next reporting period, with the conclusion of new rental agreements the rental income may increase further. Also included in this item is the rental income from the Mr.Bricolage stores in Sofia and Varna, and from Building 1 in Business Park Sofia. In the next reporting period rental income is expected to rise with the handover of the restaurant to its tenant.

The largest reduction from the other items was in the Other Income, as during the period no income was registered from revaluation of properties, which are reviewed at each financial year-end.

In the next six months period, with the recognition of the property sales at Mladost IV in Sofia, a substantial increase in total income is expected. The sale transactions will be completed in November 2017.

■ Expenses from operations

During the first six-month period of 2017, the total expenses of the Company increased by 6.07%, and amounted to EUR 688 thousand, mainly as a result of the higher costs related to the utilized by the Company investment loan and the higher maintenance costs for the new office building, which are reflected in the Other expenses item.

Table 10 – Realized expenses for the first half of 2017 and for the second half of 2016

Expenses (in thousand EUR)	H1 - 2017	H2 - 2016
Value of sold assets	-	-
Interest expense	(89)	(60)
Management fees	(268)	(264)
Materials expense	(3)	(5)
BOD and employees salaries expense	(38)	(47)
Other expenses	(288)	(273)
Total expenses	(688)	(648)

In the first six-month period of 2017, the greatest share of 41.93% belongs to the item, Other Expenses. The increase in this item relates mainly to the additional costs incurred for the operational management and maintenance of the Company's new office building. This item will continue to increase until the full completion of the scheduled property maintenance. Also, an increase in the expenses for property-related taxes for the new building was also incurred. The largest share of the remaining expenses recorded in this item was taken up by the property taxes. Other significant expenses included in this item are the external property management services, bank charges, and other administrative expenses.

The fee of the management company item was ranked second, accounting for 39.03% of the expenses. This item remained at the same level as of the prior six-month period, which is expected as a trend in the future accounting periods.

The interest expenses were next, amounting to 13.01%, including paid and accrued interest on the loan of the Company and its associated costs thereunder. This account recorded an increase, which resulted from the higher principal amount of the new investment loan. Over the next reporting periods, the interest expenses are expected to gradually drop with repayment of the outstanding principal over the years.

The main factors which will lead to a change in the expenses amount over the next six-month period are the generated additional expenses for property management and maintenance for the office building Kambanite, and the higher costs related to the commencement of the new investment project.

■ Financial result

In the first six-month period of 2017, the Company earned a profit of EUR 873 thousand. The main contributor to this declining result was the reduction in the income from revaluations at the end of the prior year, which is absent in the current period. The financial result for future periods is expected to improve due to the higher rental income from the new office building Kambanite. No further changes in the financial results following the completion of the properties sale at Mladost IV are to be expected, as the properties' selling price has already been reflected at their book value.

Table 11 – Financial result for the first half of 2017 and for the second half of 2016

Financial Result	H1 - 2017	H2 - 2016
Revenues	1,561	2,436
Expenses	-688	-648
Net profit/loss for the period	873	1,788

According to the non-audited financial statements of the Company, the Net Asset Value per share (NAV) at the end of June 2017 increases from 1.774 to EUR 1.817 per share, mainly due to the realized profit from the last period.

The accounting profit divided by the adjusted average number of shares during the period gives the earning per share (EPS) of EUR 0.043.

Results per share (EUR '000)	2017 **	2016	2015	2014
Earnings	873	2,147	1,027	-1,893
Earnings per share (EPS)	0.043	0.107	0.051	(0.094)
Net asset value (NAV)	36,617	35,743	34,357	34,152
Adjusted common shares outstanding	20,150	20,150	20,150	20,150
NAV per share	1.817	1.774	1.705	1.695
Dividend per share	0.0377	0.0377	0.0408	0.0000
Share fair value*	1.855	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 2014-2016 according to audited financial statements

■ **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 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. For the purpose of implementation of its investment plan, the Company will rely on both own financial funds and external financing.

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 retained 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 first six months of 2017, the shares of BREF recorded decrease of 1.63%, while on a yearly basis the growth is still significant (+19,25%). Following a solid performance during 2016, the sector of the REITs marks an average performance during 2017, particularly in the first half of the year. The BGREIT index, which reflects the performance of the REITs, has increased by only 5.24% for the last six months in comparison with the double-digit growth of the rest of the indexes. 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 a good performance in the first half of 2017, supported by good macroeconomic news for the country. The main index SOFIX increased by 19.96% for the period January-June, reaching the level of 703.46 points as of 30th June. The broad index BGBX40 reached the level of 134.22 points as of 30th June, rising by 20.59% on a half-yearly basis and 50.47% on a yearly basis. The positive development has led to significant increase in the turnover of the regulated market.

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 and particularly in the Bulgarian Stock Exchange.

Summarized trading details for the 52 week period – 1st July 2016 – 30th June 2017:

- Opening Price – BGN 1.870 (4 July 2016)
- Closing Price – BGN 2.230 (30 June 2017)
- Highest Price – BGN 2.379 (29 May 2017)
- Lowest Price – BGN 1.831 (11 July 2016)
- Total Trading Volume – 3,157,072 shares
- Turnover for the period – BGN 6,714,056 (EUR 3,432,842)
- Weighted average price – BGN 2.127
- Market Capitalization (30.06.2017) – BGN 44,934,500 (EUR 22,974,645)

BREF Share Price Performance
(01.07.2016 - 30.06.2017)

