

# **“Bulgarian Real Estate Fund”**

## **Third Quarter Summary Report**



22 December 2016

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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 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 (30.09.2016)	Shares Outstanding
Bulgarian Stock Exchange Sofia	5BU (BREF)	EUR 20,254,777	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.

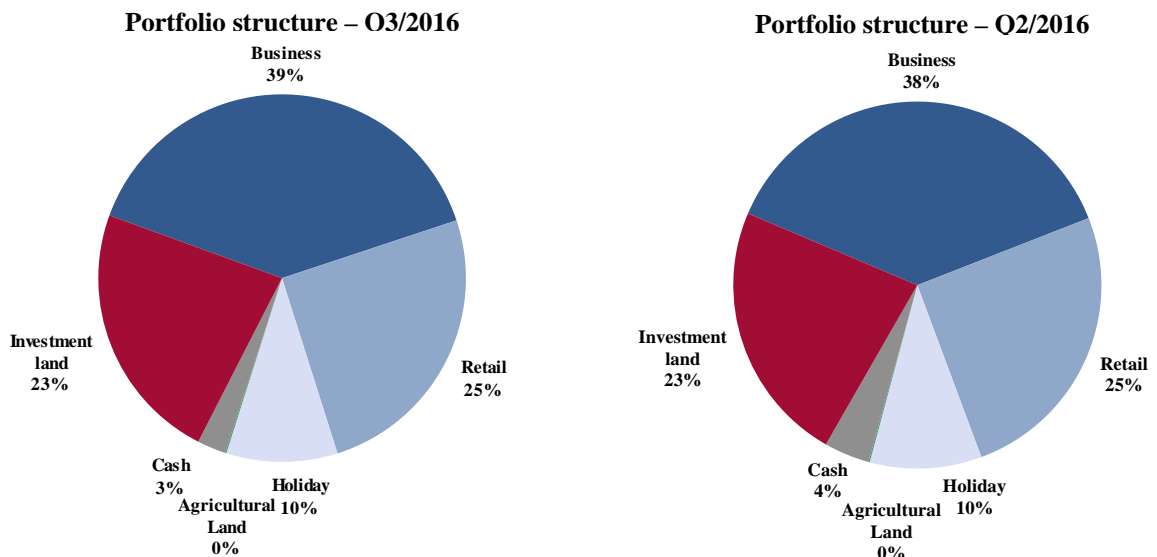
### 2.1 Portfolio structure

The major factors influencing the structure of the portfolio of the Company during the third quarter were the funds invested in the construction of the new office building at the Sofia ring road. As a result of these actions the share of the business properties continued to increase during the third quarter and decrease of the share of cash was observed. Following the investments during the last reporting period, the share of business properties reached 39% and they had the largest share in the portfolio of the Company. The commercial areas were second with 25% and the investment properties - third with 23%. During the next quarter the same factors are expected to continue to influence the portfolio of the Company and the share of the business properties to continue to grow. The utilisation of new funds under the investment loan extended to the Company in 2016 will also have an influence. The key highlights during the past quarter were as follows:

- Organizing the construction works of Kambanite Office Building and organizing auction for facility manager of the completed building;
- Marketing the new office building and signing new lease agreements;
- Organizing the fit-out works for the leased premises according to the tenants' requirements;
- Operational management of Building 1 in Business Park Sofia;
- Conducting negotiations for leasing the vacant premises in Building 1 in Business Park Sofia;
- 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 September 2016 were nine, diversified in different sectors of the real estate market in Bulgaria.

*Figure 1. Investment allocation in types of market sector*



The Fund's last quarter activity was mainly directed towards managing five out of the nine projects. The table below presents the projects segmented in accordance to their degree of completion:

**Table 1 – BREF's investment projects (all amounts in EUR thousands)**

Project	Stage of the project	Size of project	Invested till 30.09.2016	Future investments
<b>Current projects</b>				
"Mr. Bricolage" - sale and leaseback	operational management	10,568	10,568	-
Agricultural land	operational management	41	41	-
Apartment house "Sequoia 2" - Borovetz	for sale	1,781	1,781	-
Office building 1 - Business Park Sofia	operational management	7,595	7,572	23
Kambanite Office Building	in construction	10,124	8,924	1,200
<b>Pipeline projects</b>				
Seaside Holiday Village	suspended	9,203	2,324	-
Investment plots near Veliko Tarnovo*	suspended	191	191	n.a
Investment plots near Vidin*	suspended	301	301	n.a
Investment plots in Sofia - Mladost IV*	suspended	9,157	9,157	n.a
<b>Total</b>		<b>48,961</b>	<b>40,859</b>	<b>1,223</b>

\* 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 and Agricultural land are currently operational. Kambanite Office Building is in construction and Apartment house "Sequoia 2" is set for sale. The next group consists of projects in the pipeline or suspended and currently there is no progress in their development. Such projects are Seaside Holiday Village in Lozenetz, Investments plots near Veliko Tarnovo and Vidin, and 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.).

Aiming to efficiently utilize the raised capital, in 2006 BREF refinanced 70% of the acquisition cost by means of an investment bank loan from Eurobank Bulgaria at the amount of EUR 7 million. The non-paid principal on the loan as of 30<sup>th</sup> September 2016 is EUR 246 thousand.

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. During the quarter were paid expenses related to completion at the beginning of the year of construction works for reconstruction of the store in Varna.

## 2.3 Project – Agricultural Land

The total agricultural land owned by BREF as of the end of the third quarter is 283 dka, of which 107 dka are subject of litigation. The rented out lands are 43.5 dka or 15% from the total land. The average annual rental price is about BGN 50 per dka.

### Project parameters:

Agricultural land	
Total owned lands	283 dka
Investment	EUR 41,000
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 no apartments were sold and as of the end of September 2016 the sold apartments are ten. A campaign for selling the rest of the apartments is in progress.

### 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 1.78 M

## 2.5 Project – Office building 1 – Business Park Sofia

In 2014 BREF acquired 7,318 square meters of office areas and 68 parking spaces in Building 1 in 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 total occupancy rate of BREF’s properties is 96.8%. The total price is EUR 7.2 million.

The programme of the Company dedicated to improvement of the infrastructure of the property and of the conditions of work in the building will span over the next 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	96.8%

## 2.6 Project – Office Building Kambarite

The company owns a land plot with an area of 10,671 square meters in the Malinova Dolina - Bunkera Villa Zone area, Sofia. Following the zoning of the property, in 2015 the Fund started a project for construction of a multifunctional building of the highest class, which meets all criteria for green buildings and offers all amenities typical of such buildings.

According to the approved design, the total built-up area of the building will be 13,498 sq.m, of which the leasable office area will be 9,583 sq.m, the restaurant will have an area of 425 sq.m, and there will be 215 parking spaces, of which 74 in the underground parking. According to the preliminary budget, the cost of the construction works will be approximately EUR 7.8 million.

At the end of September 2016 the new building was issued Form 15 (provisional acceptance certificate) and in the end of October the permission for use was issued. Some finishing works are still under way, as they are not linked to the permission for use. Additionally, finishing works related to the fit out of the premises according to the requirements of the tenants in the building are also under way. The payment of the retained guarantee to the construction companies will be made in the next one year, in compliance with the provisions of the corresponding agreements.

In January 2016 an agreement for bank financing of the construction in the amount of BGN 11 million was executed. By the end of September the utilised funds amount to BGN 3,911 thousand. The next utilisations will be made by the end of the year, as needed by the Company.

The first rental agreement for premises in the new building was signed at the end of March. The tenant is Konika-Minolta. The contract term is 5 years and the rented area is approximately 580 sq.m. In addition, 21 parking spaces within the territory of the building were rented together with the office. A second rental agreement was signed in July with Adecco Bulgaria EOOD. The contract term is 5 years and the rented area is approximately 6,216 sq.m. In addition, 30 parking spaces in the underground parking lot of the building were rented together with the office. The last agreement was made with Victoria G 2011 EOOD, which company rented the restaurant in the building. With the execution of the last agreement, the occupancy rate reaches as much as 72.16%. The premises were delivered to the first tenant in end-October 2016 and the remaining premises will be delivered to the tenants one by one in the months to follow. Negotiations are being held with other potential tenants who have demonstrated interest in the new building.

The tender for selection of a facility manager of the new building was conducted in the third quarter. The winner is FIRST FACILITY BULGARIA EOOD. The company will undertake to procure commissioning of the building and provide for the overall maintenance of the new building.

**Project parameters:**

<b>Office Building Kambanite</b>	
Built-up area	13,498 sq.m
Leasable office area	9,583 sq.m.
Parking lots	215
Construction budget	EUR 7.8 M
Status	in construction

## **2.7 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 consists 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:**

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

**2.8 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:**

<b>Investment Plots near Veliko Turnovo</b>	
Total plots' area	148,554 sq.m
Purchase price	EUR 191,000
Status	suspended

**2.9 Project – Investment plots near Vidin**

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

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

**Project parameters:**

<b>Investment Plots near Vidin</b>	
Total plots' area	86,008 sq.m
Purchase price	EUR 0.3 M
Status	suspended

**2.10 Project – Investment plots in Sofia – Mladost IV**

At the end of the last year BREF was the owner of 15 properties, located on the Ring Road of Sofia, at its intersection with Alexander Malinov Boulevard, westwards, opposite Business Park Sofia. The total area of the properties owned under this project was 33,105 sq.m. This area is as a result of the new development plan for the territory, which entered in force in 2014, the official document for which were received by the Company within the last year. According to the plan the old properties of the Fund were replaced by new ones of the same value, with new construction parameters, new borders and area. The new development parameters are building intensity ratio 3.5 and building density 60%. Thus, after the transformation, BREF was left with properties with a total area of 33,105 sq.m., out of which 25,132 sq.m. zoned and 7,973 sq.m. unzoned, intended for green areas.



During the second quarter the Company sold one of the zoned land plots with an area of 3,616 square meters. The agreed price was EUR 250/m<sup>2</sup>. The sale was completed in the end of April 2016. After the sale the Company owns 29,489 square meters, out of which 21,516 square meters are zoned and the unzoned land constitutes grass areas.

Investment Plots, Sofia - Mladost IV district	
Total plots' area	29,489 sq.m
Purchase price	EUR 9.16 M
Status	suspended

## 3 Financial Highlights Q3/ 2016

### 3.1 Summarized Financial Statements

The following financial statements are based on non-audited financial statement for the third quarter of 2016.

**Table 3 – Balance sheet as of 30<sup>th</sup> September 2016, 30<sup>th</sup> June 2016 and 31<sup>st</sup> March 2016.**

(All amounts in EUR '000)	30.09.2016	30.06.2016	31.03.2016
<b>ASSETS</b>			
<b>Non-current Assets</b>			
Investment property	30,389	30,389	31,268
Cost for acquisition of fixed assets	6,449	5,665	3,964
Plant and equipment	1	1	1
Intangible assets	1	1	1
Restricted cash	-	-	-
<b>Total Non-current Assets</b>	<b>36,840</b>	<b>36,055</b>	<b>35,234</b>
<b>Current Assets</b>			
Investment property held for sale	750	750	778
Other financial assets	360	360	360
Trade receivable	53	50	67
Cash and cash equivalents	714	1,310	2,504
Other current assets	256	330	231
Deferred expenses	127	20	15
<b>Total Current Assets</b>	<b>2,259</b>	<b>2,820</b>	<b>3,955</b>
<b>TOTAL ASSETS</b>	<b>39,098</b>	<b>38,875</b>	<b>39,189</b>
<b>EQUITY AND LIABILITIES</b>			
<b>Equity</b>			
Share capital	30,908	30,908	30,908
Share premium	3,244	3,244	3,244
Retained earnings	802	564	437
<b>Total equity</b>	<b>34,954</b>	<b>34,716</b>	<b>34,588</b>
<b>Non-current liabilities</b>			
Interest bearing loan	1,579	1,713	1,845
<b>Total Non-current liabilities</b>	<b>1,579</b>	<b>1,713</b>	<b>1,845</b>
<b>Current liabilities</b>			
Current part of non-current liabilities	648	756	863
VAT payable	-	-	43
Payables to management company	703	596	594
Payables to the personnel and SIC	1	1	1
Provisions for dividends due	822	822	822
Trade and Other current liabilities	392	272	433
<b>Total Current liabilities</b>	<b>2,565</b>	<b>2,447</b>	<b>2,755</b>
<b>Total liabilities</b>	<b>4,145</b>	<b>4,159</b>	<b>4,601</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>39,098</b>	<b>38,875</b>	<b>39,189</b>

**Table 4 – P&L statement for the first three quarters and accumulated since the beginning of 2016**

(All amounts in EUR '000)	Q3 - 2016	Q2 - 2016	Q1 - 2016	2016
Income from sale of assets	-	1,061	-	1,061
Rental income	530	525	519	1,574
Revenue from interest and other financial revenues	1	1	1	3
Other financial income	5	7	9	21
Other Income	-	8	9	16
<b>Total Revenue</b>	<b>535</b>	<b>1,602</b>	<b>538</b>	<b>2,676</b>
Value of sold assets	-	(1,159)	-	(1,159)
Interest expense	(21)	(25)	(18)	(63)
Management fees	(130)	(130)	(129)	(389)
Materials expense	(2)	(1)	(1)	(3)
BOD and employees salaries expense	(18)	(19)	(18)	(56)
Loss from fair value adjustments	-	-	-	-
Other expenses	(126)	(141)	(141)	(408)
<b>Total expenses</b>	<b>(297)</b>	<b>(1,475)</b>	<b>(307)</b>	<b>(2,078)</b>
<b>Profit/(loss) for the period</b>	<b>238</b>	<b>127</b>	<b>232</b>	<b>597</b>
<b>Adjusted weighted average number of shares in the quarter (in thousands)</b>	<b>20,150</b>	<b>20,150</b>	<b>20,150</b>	<b>20,150</b>
<b>Earnings per share - basic and diluted</b>	<b>0.012</b>	<b>0.006</b>	<b>0.011</b>	<b>0.030</b>

### 3.2 Liquidity

**Table 5 – Liquidity ratios as of 30<sup>th</sup> September 2016, 30<sup>th</sup> June 2016 and 31<sup>st</sup> March 2016.**

Liquidity Ratios	30.09.2016	30.06.2016	31.03.2016
Current ratio	0.88	1.15	1.44
Quick ratio	0.59	0.85	1.15
Cash ratio	0.28	0.54	0.91

The major factors influencing the liquidity ratios were the reduced cash, accrued deferred expenses and increased liabilities related to the construction of the new building. All those changes led to reduction of all ratios, now already below 1. The current and quick liquidity ratios reached 0.88 and 0.59 respectively, and the cash liquidity ratio dropped as low as 0.28. After repayment of the 2015 dividend and the continuing payments under the construction of the new office building, the liquidity ratios are expected to decrease further during the next reporting period, provided that improvement may be expected by the end of the year, when the final utilizations under the extended loan will have been made and the new building will start to generate income.

#### ■ Internal Sources of Liquidity

The internal sources of liquidity demonstrated multidirectional movement during the last quarter. The short-term assets decrease, while the short-term liabilities increased. The decreasing cash in the assets and the increasing short term liabilities associated with the construction of the new building were the reason for those changes.

○ **Short-term (current) assets**
**Table 5A – Current assets as of 30<sup>th</sup> September 2016, 30<sup>th</sup> June 2016 and 31<sup>st</sup> March 2016.**

Liquidity sources	30.09.2016	%	30.06.2016	%	31.03.2016
<b>Current Assets</b>					
Investment property held for sale	750	33.21%	750	26.60%	778
Other financial assets	360	15.93%	360	12.77%	360
Trade receivable	53	2.33%	50	1.76%	67
Cash and cash equivalents	714	31.60%	1,310	46.46%	2,504
Other current assets	256	11.32%	330	11.70%	231
Deferred expenses	127	5.61%	20	0.73%	15
<b>Total Current Assets</b>	<b>2,259</b>	<b>100%</b>	<b>2,820</b>	<b>100%</b>	<b>3,955</b>

The funds spent on the construction of the new office building of the Company resulted in reduction of the total amount of the current assets of BREF in the past quarter. By the end of the period their value decreased to 19.89%, reaching EUR 2,259 thousand. As a result of those changes the overall structure of the current assets also changed, the investment properties taking up the largest share, which was fully on account of cash. The investment properties, in turn, kept their value and became the asset with the largest share of 33.21%. The book value of the residential building Sequoia 2 in Borovets resort is recorded in this item and in the absence of other sales, the value of the investment properties is expected to remain the same during the next reporting period.

Cash, with amount dropping to EUR 714 thousand, was ranked second, accounting for 31.60%. During the next reporting period, with the utilisation of funds under the investment loan and the generation of income from rents from the new building, the amount of cash is expected to increase, provided that the major decrease will be observed as a result of the repayment of the 2015 dividends.

The Other Financial Assets item was next with 15.93%. This entry contains the amount of the fixed term deposit of the Fund, expiring in January 2017, which will be transferred to the Cash item.

Minor decrease was observed in the Other Receivables item during the period. The main entry under this item was the assessed VAT refundable, accrued in the course of the construction works of the new building; therefore its reduction was a result of the receivables of the Company refunded by the tax authorities. This item is expected to significantly decrease during the next quarter, also after the start of the new building; the generation of income from rents of the Fund VAT payments will also start.

On the other hand, major increase was observed in the Deferred Expenses item. The accrual of the funds in this item was a result of the paid brokerage commissions under the new rental agreements for the new building of the Company made during the year. The expenses under this item are gradually written off over the years of operation of these agreements.

The trade receivables and interest increased slightly their amount compared to the prior quarter, provided that this item contained mainly current receivables from tenants and accrued interest under deposits. The recorded increase was as a result of the new receivables from the tenants in the new building related to reconstruction tailored to their requirements. During the next reporting period, after completion of the reconstruction and payment of the relevant cost by the tenants, the amount of these receivables is expected to decrease.

The total amount of the current assets during the next reporting periods will mainly depend on the generated income from rents, the accomplished property sales and utilised new funds from the investment loan extended to BREF.

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

*Table 5B – Current liabilities as of 30<sup>th</sup> September 2016, 30<sup>th</sup> June 2016 and 31<sup>st</sup> March 2016.*

Liquidity sources	30.09.2016	%	30.06.2016	%	31.03.2016
<b>Current liabilities</b>					
Current part of non-current liabilities	648	25.25%	756	30.91%	863
VAT payable	0	0.00%	0	0.00%	43
Payables to management company	703	27.41%	596	24.35%	594
Payables to the personnel and SIC	1	0.02%	1	0.02%	1
Provisions for dividends due	822	32.05%	822	33.61%	822
Trade and Other current liabilities	392	15.27%	272	11.12%	433
<b>Total Current Liabilities</b>	<b>2,565</b>	<b>100%</b>	<b>2,447</b>	<b>100%</b>	<b>2,755</b>

During the last quarter the total amount of the short-term liabilities rose by 4.85%, reaching EUR 2,565 thousand at period-end. The recorded changes led to decrease of the payables due under the investment loans of the Fund, on one hand, and, on the other, they led to increase of the liabilities to the managing company and for trade and other obligations. These changes entailed 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 type of liabilities. Despite these changes, the provisions for dividends for 2015 financial year in the amount of EUR 822 kept the largest share of 32.05%. The amount due calculated represents 90% of the transformed financial result, determined in compliance with article 10 of the SPV Act and was voted for allocation at the last General Meeting of the Shareholders held on 11 August 2016.

The payables to the managing company, an intermediary for the construction of the new building, were second, amounting to 27.41%. The observed increase of their amount was a result of the additionally accrued retained funds payable to the construction companies serving as a performance bond.

The payables for the next one year under both loans of the Company followed, accounting for 25.25%. The recorded decrease was a result of the investment loan under the Mr. Bricolage project expiring at the end of the year and the smaller payments in comparison with the first loan for the construction of the new building. The trend is expected to continue until the end of this year and it will reverse its development when the Fund will have only one loan again.

The trade and other liabilities increased their amount and their share in the current liabilities rose to 15.27%. The major reasons for the recorded increase were the amounts paid in advance by the tenants in the new building for the fit out of the leased areas tailored by the Company to the requirements of the tenants. During the next reporting period these liabilities will be deducted from the expenses made by the Fund and will result in decrease of the trade liabilities.

During the next reporting period part of the retained funds payable to the construction companies will be repaid and with the delivery of the newly leased premises to their tenants the advance payments for their fit out will be deducted, which will lead to reduction of the current liabilities.

■ **External Sources of Liquidity**

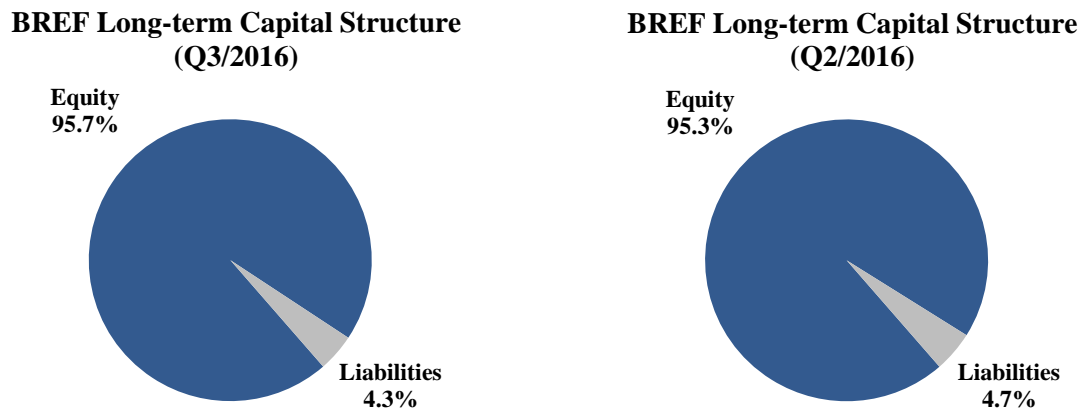
The external sources of liquidity are the equity and the investment loans as described in detail in section 3.3. Capital resources.

For the purpose of the ongoing projects the Company will use, apart from the available own financial resources, funds from the new bank loan, for which the Company signed an agreement in January 2016. In connection with the distribution of the available funds for the implementation of projects, BREF will focus its operation on the construction of the new building and seeking new investment projects.

### 3.3 Capital resources

At the end of September 2016 the long-term capital of the Company, both equity and borrowed, recorded a weak increase of 0.29% to EUR 36,533 thousand. The change was a result mainly of the achieved financial results during the quarter and therefore led to increase of the equity. During the next reporting periods the share of the borrowed funds is expected to increase with the utilisation of new funds under the investment loan. 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	30.09.2016	30.06.2016	31.03.2016
Debt-to-Equity	0.12	0.12	0.13
Non-Current Assets-to-Equity ratio	1.05	1.04	1.02
Long-term-Debt-to-Non-Current-Asset ratio	0.04	0.05	0.05

\*The derivative financial instrument, 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 2016 the equity of BREF is EUR 34,954 thousand, which represents an increase of 0.69% 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 30<sup>th</sup> September 2016, 30<sup>th</sup> June 2016 and 31<sup>st</sup> March 2016.*

Equity (in thousands)	30.09.2016	30.06.2016	31.03.2016
Share capital	30,908	30,908	30,908
Share premium	3,244	3,244	3,244
Retained earnings	802	564	437
<b>Total equity</b>	<b>34,954</b>	<b>34,716</b>	<b>34,588</b>

#### ■ External financing

In January 2016 the Company signed a new bank loan agreement with Eurobank Bulgaria AD. The new loan is for 10 years and up to the amount of BGN 11 million. The purpose of the loan is to finance the construction of the new office building of the Fund situated at Sofia Ring Road. The interest due under the loan is the 3-month Sofibor +3.1%. The grace period of the principal is till the end of 2016. The utilization of the funds will be implemented in tranches, depending

on the construction expenses made. For the past period the utilized funds are at the amount of BGN 3,911 thousand (EUR 2 million).

During the last quarter the Fund paid regularly the installments due on the other investment loan used to finance the Mr. Bricolage project. The loan principal outstanding as of the end of September 2016 totals EUR 246 thousand. The term of the loan is by December 2016.

#### ■ Capital expenses during the next periods under review

The Fund's investment strategy for 2016 is focused mainly on constructing the new office building on the Ring Road in Sofia. In addition new capital expenditures are expected for Building 1 in Business Park Sofia, where repairs of the common parts are planned.

For financing its construction works in 2016 BREF intends to use the new bank loan as well as its currently available capital resources.

### 3.4 Asset structure

The amount of the BREF assets by the Q3 end increased by 0.57% to EUR 39,098 thousand, as compared to the end of the prior quarter, when the amount of the assets was EUR 38,875 thousand. The recorded increase was mainly as a result of the realized net income during the period, which partly compensated the funds spent on the construction of the new building. The increase of the assets of the Fund will continue during the next reporting period with the utilisation of new funds under the loan extended to the Company.

*Table 6 – Asset structure*

Asset structure (thousand EUR)	30.09.2016	% share	30.06.2016	% share	31.03.2016
<b>Non-current assets incl.</b>	<b>36,840</b>	<b>94.22%</b>	<b>36,055</b>	<b>92.75%</b>	<b>35,234</b>
- total property	30,389	77.72%	30,389	78.17%	31,268
- cost for acquisition of fixed assets	6,449	16.49%	5,665	14.57%	3,964
<b>Current assets incl.</b>	<b>2,259</b>	<b>5.78%</b>	<b>2,820</b>	<b>7.25%</b>	<b>3,955</b>
- trade receivable	53	0.13%	50	0.13%	67
- investment property held for sale	750	1.92%	750	1.93%	778
- other financial assets	360	0.92%	360	0.93%	360
- cash and cash equivalents	714	1.83%	1,310	3.37%	2,504
<b>Total assets</b>	<b>39,098</b>	<b>100%</b>	<b>38,875</b>	<b>100%</b>	<b>39,189</b>

With the progress of the construction, the tendency to increase the share of the long-term assets on account of the share of the short-term ones will also continue. This tendency is expected to continue by the end of the year, when the construction works of the new building will be completed. As a result of this by the end of Q3 the share of the long-term assets increased to 94.22% and the short-term assets were just 5.78%. During the next quarter, with the utilisation of new funds under the loan of the Company, the share of cash is expected to recover part of its lost position and the short-term assets are expected to increase.

### 3.5 Financial Results

The operation of the Company during the third quarter of 2016 was focused mainly on the management of projects generating income for the Fund and the construction of the new building.

## ■ Revenue from operations

During the reviewed quarter the accounted revenue was EUR 535 thousand, or 66.58% less than the prior quarter. The main reason for this result was the lack of assets sales.

*Table 9 – Realized revenues by quarters and accumulated since the beginning of 2016.*

Revenue (in thousand EUR)	Q3 - 2016	Q2 - 2016	Q1 - 2016	2016
Income from sale of assets	-	1,061	-	1,061
Rental income	530	525	519	1,574
Revenue from interest and other financial revenues	1	1	1	3
Other financial income	5	7	9	21
Other Income	-	8	9	16
<b>Total revenue</b>	<b>535</b>	<b>1,602</b>	<b>538</b>	<b>2,676</b>

Unlike Q2, during Q3 the greatest share, or 98.95%, was the Rental income. Its amount increased, which was a result of the new rental prices in force under some of the rental agreements for Building 1 in Business Park Sofia. The income from rent is expected to increase further during the next quarter, as a result of the start of the new rental agreements for the Kambanite building, provided that greater increase will be recorded during the new calendar year.

The income from change in the value of the realized swap under the loan for financing of the purchase of the Mr. Bricolage stores was again next. The amount of this item of the income will further decrease during the last quarter of the year and will completely disappear in the next year with the repayment of the loan.

The income from interest kept its amount and the value is expected to remain within the range as in the last quarter.

Generally, the income is expected to record a new increase at the end of the year; additional income may be recorded in case of net positive income from revaluation of assets of the Company.

## ■ Expenses from operations

During the last quarter the total expenses of BREF decreased by 79.85% mainly as a result of the lack of assets sales.

*Table 10 – Realized expenses by quarters and accumulated since the beginning of 2016.*

Expenses (in thousand EUR)	Q3 - 2016	Q2 - 2016	Q1 - 2016	2016
Value of sold assets	-	(1,159)	-	(1,159)
Interest expense	(21)	(25)	(18)	(63)
Management fees	(130)	(130)	(129)	(389)
Materials expense	(2)	(1)	(1)	(3)
BOD and employees salaries expense	(18)	(19)	(18)	(56)
Other expenses	(126)	(141)	(141)	(408)
<b>Total expenses</b>	<b>(297)</b>	<b>(1,475)</b>	<b>(307)</b>	<b>(2,078)</b>

In the third quarter of 2016 the largest share, 43.72%, 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; this is expected as a trend in the future accounting periods.

The Other Expenses item was ranked second, accounting for 42.51% of the expenses. The recorded decrease was a result of the absence of accompanying expenses related to the sale of properties during the second quarter of the year. Out of the remaining expenses recorded in this



item the largest share was taken up by the property taxes. Other significant expenses under this account included expenses for external property management services, bank charges, and other administrative expenses. During the next reporting period, with the commissioning of the new building, the expenses on property taxes and maintenance are expected to increase and so will the total amount of this item.

The expenses on interest, amounting to 7.06%, were next, including paid and accrued interest under both loans of the Company and expenses under the interest swap utilised under the Mr. Bricolage loan. This item decreased as a result of the decreasing amount of the principal of the old loan of the Company. During the next reporting periods, with the utilisation of additional funds under the new investment loan of the Company, these expenses on interest are expected to increase.

The major factors that will lead to increase of the expenses during the next reporting period are the commissioning of the new building and the utilisation of new funds under the investment loan extended to the Company early in the year. Additional one-off increase may occur during the next quarter in case of assessment of negative net expenses from revaluations of assets of the Fund.

## ■ Financial result

In the third quarter of 2016 the Company realised a profit of EUR 238 thousand and the main contributor to this result was the income from rent and the absence of loss reported during the second quarter from the sale of the properties in the area of Veliko Tarnovo. The financial result during the last quarter of the year will depend mainly on the generated higher income 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 2016.*

Financial Result	Q3 - 2016	Q2 - 2016	Q1 - 2016	2016
Revenues	535	1,602	538	2,676
Expences	(297)	(1,475)	(307)	(2,078)
<b>Net profit/loss for the period</b>	<b>238</b>	<b>127</b>	<b>232</b>	<b>597</b>

The accounting profit divided by the adjusted average number of shares during the quarter gives the earning per share (EPS) of EUR 0.012.

Results per share (EUR '000)	2016 **	2015	2014	2013
Earnings	597	1,027	(1,893)	862
Earnings per share (EPS)	0.030	0.051	(0.094)	0.043
Net asset value (NAV)	34,954	34,357	34,152	36,045
Adjusted common shares outstanding	20,150	20,150	20,150	20,150
NAV per share	1.735	1.705	1.695	1.789
Dividend per share	0.0408	0.0408	0.0000	0.0122
Share fair value*	1.775	1.746	1.695	1.801

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

\*\* Net asset value for 2016 is per non-audited financial statements, while for 2013-2015 according to audited financial statements

According to the non-audited financial statements of the Fund, the net asset value per share (NAV) at the end of September 2016 stayed at EUR 1.775 per share.

## ■ 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 Fund is subject to such a risk, baring 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 favourable conditions for good return in the future.

***Interest rate risk***

As of the end of September 2016, considering the investment bank loans of the Fund, it is exposed to interest rate risk regarding possible changes in the interest rate levels. In order to minimize this risk BREF has concluded a contract for interest swap according to which it exchanges a floating for a fixed interest rate. The Fund is in constant contact with the creditor bank regarding optimization of the interest payments.

***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 current, due to the secured additional bank financing the Fund has enough available funds to finance its operative and investment activity.

***Construction risk***

Due to the construction of the new Kambanite Office Building 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. The expectations of the Company are finalizing the construction works on the new building those risks to be significantly reduced.

## 4 Share performance

During the third quarter of 2016 the shares of Bulgarian Real Estate Fund ADSIC continued their good performance and their price rose by 5.13% in the period, and the annual growth reached 45.63%. 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.

The revival in the real estate sector entailed a response by the BGREIT index, following the performance of the special purpose vehicles. The index added 1.01% reaching 103.27 points in July – September, recording a fifth quarter of growth in a row. The companies investing in real estate continue to generate the interest of investors and their shares are traditionally among the most traded on the floor of the Bulgarian Stock Exchange, Sofia.

The capital market also demonstrated good performance during the period. The SOFIX index increased by 10.76% reaching 504.58 points during the last three months, and the broad index BGBX 40 added 7.72% to its value, thus reaching 96.09 points at period-end. 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 2016 grew by 107% on an annual base.

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 – 1<sup>st</sup> October 2015 – 30<sup>th</sup> September 2016:

- Opening Price – BGN 1.350 (1 October 2015)
- Closing Price – BGN 1.966 (30 September 2016)
- Highest Price – BGN 1.990 (22 August 2016)
- Lowest Price – BGN 1.350 (08 October 2015)
- Total Trading Volume – 2,369,797 shares
- Turnover for the period – BGN 4,016,100 (EUR 2,053,399)
- Weighted average price – BGN 1.695
- Market Capitalisation (30.09.2016) – BGN 39,614,900 (EUR 20,254,777)

**BREF Share Price Performance  
(01.10.2015 - 30.09.2016)**

