

# **“Bulgarian Real Estate Fund”**

## **Fourth Quarter Summary Report**



30 January 2019

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## 1 Overview of the Fund

Bulgarian Real Estate Fund /BREF/ is a close-ended real estate investment vehicle, headquartered in the capital of Bulgaria - Sofia. Incorporated in October 2004, it is among the first established Bulgarian REITs. The Fund was licensed by the FSC of Bulgaria in March 2005, and was listed on the Bulgarian Stock Exchange – Sofia (BSE) in April 2005.

As a real estate investment trust, BREF specializes in strategic property acquisitions and invests exclusively in high-performing real estates, in all property sectors across Bulgaria.

The principle investment objective of the Fund is to provide its shareholders with a combination of current income and long-term appreciation of the common stock value. To achieve the set targets, BREF implemented a strategy to acquire, develop, manage and lease properties that have superb potential for cash-flow growth and capital appreciation. With these objectives BREF constructed a portfolio of 10 active projects spread across all property sectors in Bulgaria, thus creating a well-diversified and low risk portfolio.

Today, BREF is among the largest REITs in Bulgaria in terms of market capitalization and holds an excellent reputation among local banks, property owners and the investment community, a sure sign for its competent management and publicly approved results.

Stock Exchange	Ticker Symbol	Market Capitalization (31.12.2018)	Shares Outstanding
<b>Bulgarian Stock Exchange Sofia</b>	<b>5BU (BREF)</b>	<b>EUR 33,653,056</b>	<b>34,641,925</b>

## 2 Portfolio

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

### 2.1 Portfolio structure

In the last quarter of the year, there were no significant changes in the Company's portfolio.

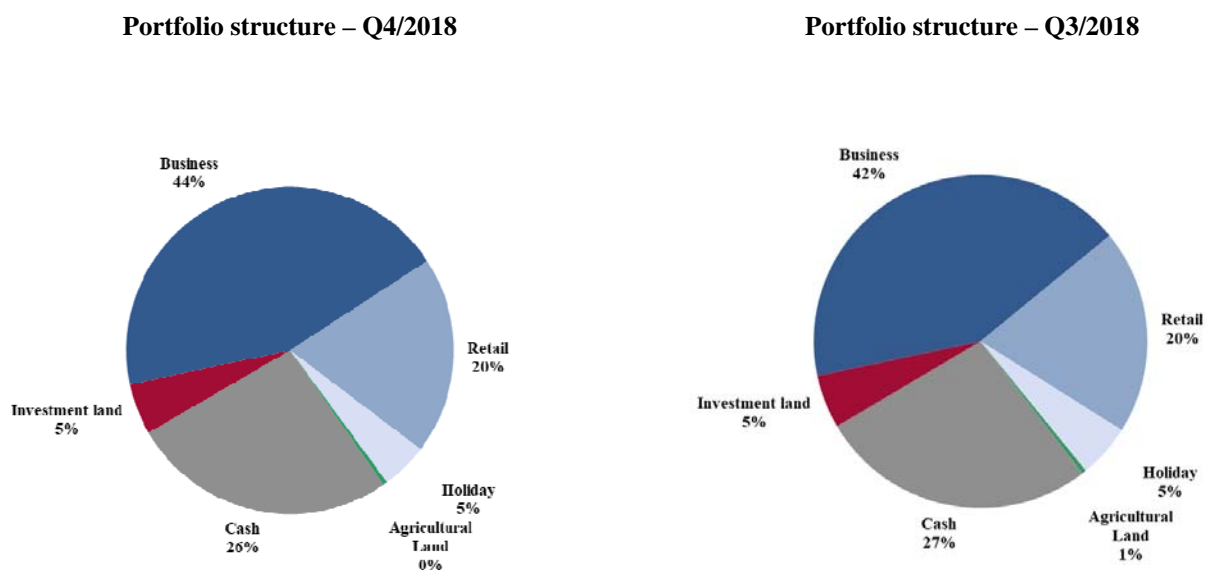
At the end of the period the business properties share is 44%. Followed by the trade properties with share of 20% and the investment and vacation properties had share of 5% each. The amount of cash retained its share of the previous quarter, when it grew as a result of the company's capital increase and reached 26% of the total portfolio volume. The expectations for the next reporting periods, with the start of the construction activity of the new development project and the envisaged new investments in it, are the amount of the business properties to continue to increase at the expense of the cash.

The key highlights during the past quarter were as follows:

- Design of the new office building in Sofia Tech Park and start of the activities after obtaining a construction right;
- Preparation of construction auctions for the development of the office building in Sofia Tech Park;
- Operational management of the Kambanite Office Building;
- Operational management and conducting of capital repairs in Building 1 in Business Park Sofia;
- Operational management of the properties leased to Mr.Bricolage;

The projects managed by BREF as of the end of December 2018 were ten, diversified in different sectors of the real estate market in Bulgaria.

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



In the past quarter, the Company's activity was mainly directed towards managing six projects. The table below presents the projects segmented based on their degree of completion:

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

Project	Stage of the project	Historical value	Balance sheet value 31.12.2018	Future investments
<b>Current projects</b>				
"Mr. Bricolage" - sale and leaseback	operational management	10,440	11,735	
Agricultural land	operational management	58	257	
Apartment house "Sequoia 2" - Borovetz	for sale	1,650	726	
Office building 1 - Business Park Sofia	operational management	7,466	9,610	
Kambanite Office Building	operational management	8,981	11,496	
Office building Sofia Tech Park	in construction	5,458	5,414	16,873
<b>Pipeline projects</b>				
Seaside Holiday Village	suspended	2,254	2,041	-
Investment plots near Veliko Tarnovo*	suspended	192	624	n.a
Investment plots near Vidin*	suspended	301	631	n.a
Investment plots in Sofia - Mladost IV*	suspended	4,817	1,781	n.a
<b>Total</b>		<b>41,619</b>	<b>44,315</b>	<b>16,873</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, Agricultural land, and Kambanite office building are currently operational. Apartment house "Sequoia 2" in Borovetz is set for sale, and the Office building in Sofia Tech Park is in the construction stage. 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

The start of the Mr. Bricolage project was in 2006. The investment is of the kind "sale and leaseback", the subject of which are the two stores in the chain Mr.Bricolage located in the city of Varna in Mladost district and in Sofia on Tsarigradsko Blvd.

In 2016 the loan used to finance the project is fully repaid and from 2017 the received cash resource from the rental income entirely remains in the Company.

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

### Project parameters:

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

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

During the fourth quarter of the year the lease agreements were regularly serviced. During this year was carried out replacement of the roof insulation and renovation of some installations in Sofia property.

### 2.3 Project – Agricultural Land

The total agricultural land owned by BREF as of the end of the fourth quarter of the year is 404 dka. The rented out lands are 191.1 dka or 47% from the total land. The average annual rental price is approximately EUR 25.56 per dka.

**Project parameters:**

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

### 2.4 Project – Apartment house “Sequoia 2” - Borovetz

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

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

As of the end of December, 2018 the total quantity of sold apartments was eleven and one garage. The sales campaign for the remaining properties in the building continues. In September another preliminary agreement was signed for the sale of another apartment under which contract was received an advanced payment, but the sale is not finalized.

**Project parameters:**

Apartment house "Sequoia 2" - Borovetz	
Plot area	512 sq.m
Total built-up area	3,527 sq.m
Apartments left for sale	24
Current Investment	EUR 1.65 M

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

In 2014 BREF acquired 7,318 square meters of office space and 68 parking spaces in Building 1 at Business Park Sofia, together with 64.45% shares of the land where the building is erected. All offices are situated in entrance B of the building. As of the end of December 2018 the company’s properties have a 100 % occupancy rate after the new rented offices of CC Smart Solutions was handed over. The total area under this contract is 444.30 sq.m. along with six parking spots in the underground parking of the building.

The renovation of the foyer of the building was completed in the course of the fourth quarter.

**Project parameters:**

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

## 2.6 Project – Office Building Kambanite

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

As of the end of December the building was leased to 89.42%. The main tenants in the building are Addeco Bulgaria EOOD with 6,902.31 square meters, Survey Sampling Bulgaria EOOD with 912.76 sq.m. and Konica Minolta with 661.89 sq.m. The total number of leased parking spaces is 160, of which 51 are in the underground parking area. The tenant of the restaurant area is Victoria G 2011 EOOD. Negotiations are being held with other potential tenants who have demonstrated an interest in the new building.

In 2016, the Company secured a bank loan for financing the project construction amounting to EUR 5.62 million with Eurobank Bulgaria AD. By the end of December 2018, the outstanding principal amounts to EUR 4.62 million. The terms of the loan are described in article 3.3 below.

### Project parameters:

<b>Office Building Kambanite</b>	
Built-up area	13,205 sq.m
Leasable office area	9,356 sq.m.
Parking lots	214
Construction budget	EUR 8.96 M
Occupancy rate	89.42%

## 2.7 Project – Office building Sofia Tech Park

In 2017 after winning the tender organized by Sofia Tech Park AD, Bulgarian Real Estate Fund REIT has acquired the construction right in Zone 2 of the development plan of the Sofia Tech Park.

Under the agreement, the total purchase price for the construction right is BGN 9,652,000 (4,934,989 EUR), which amount has been fully paid by the Company. According to the final agreement, BREF acquired the right to build a multifunctional administrative-service building with a built area of 4,395 sq.m., total built-up area of up to 35,000 sqm, an underground parking on two levels with a total built-up area of up to 16,000 sq.m. The area on which the granted construction right will be realized is 8,140 sq.m. Under the provisions of the agreement, the Company is obliged to complete the building construction within 5 years from the date of the acquisition of the construction right. Another requirement in the contract is that no less than 30% of the office space should be used by companies that have research and development activities in the specified focal areas of the park and meet the definition of a high-tech company or a medium-tech company according to the statistical information of EUROSTAT.

After the acquisition of the construction right, the Company also signed a design contract with A & A Architects OOD for the development of the new building project. During the last quarter the Company received a construction permission № 336 / 04.11.2018 with the following parameters: Total built-up area above ground 34,998.88 sq.m. and total built-up area of 50,761.38 sq.m.

Over the past quarter the Company has finished some of the tenders for the construction works, with which in the beginning of 2019 will start the development of the building.

According to the preliminary estimates of the Company, the expected value of the new building's construction is about EUR 33 million. Initially the financing of the new project will be realized from the capital increase and at a later stage - with borrowed funds.

## 2.8 Project – Seaside Holiday Village

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

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

### Project parameters:

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

## 2.9 Project – Investment land plots near Veliko Turnovo

In 2006 the Company purchased properties with a total area of 203,249 sq.m. located on the main Sofia - Varna road, at a distance of 5 km from the town of Veliko Turnovo. The properties constitute agricultural land and are still not zoned. In 2015 the Company accomplished a transaction for the sale of part of the properties with an area of 24,445 sq. m. and in May 2016 second transaction for the sale of another 30,250 sq. m. was executed. After the two sales the remaining properties owned by BREF have a total area of 148,554 sq. m. Meanwhile the Fund temporarily has rented out the properties as agricultural land.

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
Purchase price	EUR 0.19 M
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

In 2017, BREF was the owner of 15 properties, situated along Sofia's Ring Road in the intersection point of Alexander Malinov Boulevard, in a westerly direction, opposite to Business Park Sofia. After signing of preliminary agreements during December, 2016, in the end of the 2017 the Company finalized two more deals for the sale of two of the regulated properties in Mladost IV with total area of 13,471 sq. m. After execution of the sales in the end of 2017, during 2018 the Company remains the owner of 16,018 sq. m., of which 8,045 sq. m. in regulation, and the remaining area outside of regulation, designated for green spaces.

### **Project parameters:**

<b>Investment Plots, Sofia - Mladost IV district</b>	
Total plots' area	16,018 sq.m
Purchase price	EUR 4.8 M
Status	suspended

## 3 Financial Highlights Q4/ 2018

### 3.1 Summarized Financial Statements

The following financial statements are based on non-audited financial statement for the fourth quarter of 2018.

**Table 3** – Balance sheet as of December 31 2018, September 30<sup>th</sup> 2018, June 30<sup>th</sup> 2018 and 31 March 2018.

(All amounts in EUR '000)	31.12.2018	30.09.2018	30.06.2018	31.03.2018
<b>ASSETS</b>				
<b>Non-current Assets</b>				
Investment property	43,202	41,758	41,758	41,758
Cost for acquisition of fixed assets	416	274	141	99
Plant and equipment	3	3	4	4
Intangible assets	3	2	2	3
<b>Total Non-current Assets</b>	<b>43,622</b>	<b>42,037</b>	<b>41,905</b>	<b>41,864</b>
<b>Current Assets</b>				
Investment property held for sale	726	761	782	782
VAT receivable	-	54	108	-
Trade receivable	197	197	177	162
Cash and cash equivalents	15,822	15,782	2,135	2,012
Other current assets	1	1	2	2
Deferred expenses	32	22	23	12
<b>Total Current Assets</b>	<b>16,779</b>	<b>16,818</b>	<b>3,226</b>	<b>2,969</b>
<b>TOTAL ASSETS</b>	<b>60,401</b>	<b>58,855</b>	<b>45,131</b>	<b>44,833</b>
<b>EQUITY AND LIABILITIES</b>				
<b>Equity</b>				
Share capital	17,712	10,303	10,303	10,303
Share premium	30,361	37,772	23,849	23,849
Retained earnings	5,498	5,464	4,946	4,491
<b>Total equity</b>	<b>53,571</b>	<b>53,538</b>	<b>39,097</b>	<b>38,643</b>
<b>Non-current liabilities</b>				
Interest bearing loan	4,010	4,161	4,310	4,458
<b>Total Non-current liabilities</b>	<b>4,010</b>	<b>4,161</b>	<b>4,310</b>	<b>4,458</b>
<b>Current liabilities</b>				
Current part of non-current liabilities	603	597	593	589
VAT payable	13	18	9	72
Payables to management company	193	191	581	536
Payables to the personnel and SIC	1	1	1	-
Provisions for dividends due	1,756	-	351	351
Trade and Other current liabilities	255	349	189	184
<b>Total Current liabilities</b>	<b>2,821</b>	<b>1,156</b>	<b>1,723</b>	<b>1,732</b>
<b>Total liabilities</b>	<b>6,830</b>	<b>5,316</b>	<b>6,033</b>	<b>6,190</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>60,401</b>	<b>58,855</b>	<b>45,131</b>	<b>44,833</b>

**Table 4 – P&L statement by quarters and accumulated from the beginning of 2018**

(All amounts in EUR '000)	Q4 - 2017	Q3 - 2018	Q2 - 2018	Q1 - 2018	2018
Income from sale of assets	21	21	-	-	42
Rental income	897	853	853	844	3,448
Revenue from interest and other financial revenues	-	-	-	-	-
Other financial income	-	-	-	-	-
Other Income	1,298	1	-	6	1,304
<b>Total Revenue</b>	<b>2,216</b>	<b>875</b>	<b>853</b>	<b>850</b>	<b>4,794</b>
Value of sold assets	(21)	(21)	-	-	(42)
Interest expense	(38)	(39)	(40)	(41)	(159)
Management fees	(139)	(147)	(145)	(144)	(574)
Materials expense	(19)	(2)	(1)	(2)	(22)
BOD and employees salaries expense	(30)	(19)	(19)	(19)	(87)
Other expenses	(179)	(129)	(194)	(135)	(638)
<b>Total expenses</b>	<b>(426)</b>	<b>(357)</b>	<b>(398)</b>	<b>(341)</b>	<b>(1,523)</b>
<b>Profit/(loss) for the period</b>	<b>1,790</b>	<b>518</b>	<b>455</b>	<b>509</b>	<b>3,271</b>
<b>Adjusted weighted average number of shares in the quarter (in thousands)</b>	<b>34,642</b>	<b>20,150</b>	<b>20,150</b>	<b>20,150</b>	<b>22,565</b>
<b>Earnings per share - basic and diluted</b>	<b>0.052</b>	<b>0.026</b>	<b>0.023</b>	<b>0.025</b>	<b>0.145</b>

After the capital increase, the total number of the Company's shares was increased to 34,642 thousand, taking the profit for the fourth quarter of 2018 to the new number of shares yielding 1 share of 0,052 EUR.

### 3.2 Liquidity

**Table 5 – Liquidity indicators for BREF as of 31.12.2018, 30.09.2018, 30.06.2018 and 31.03.2018**

Liquidity Ratios	31.12.2018	30.09.2018	30.06.2018	31.03.2018
Current ratio	5.95	14.55	1.87	1.71
Quick ratio	5.69	13.90	1.42	1.26
Cash ratio	5.61	13.66	1.24	1.16

In the past quarter, the liquidity ratios registered significant decrease. The change in liquidity during the period is mainly due to the volume of accrued provisions for dividends and the realized expenses for the new investment project in Sofia Tech Park. The current liquidity ratio had decreased to 5.95, and quick and cash liquidity ratios had reached 5.69 and 5.61 respectively.

In the next reporting period, the costs for the development of the new investment project in Sofia Tech Park are forthcoming, so it is expected that the Company's liquidity will decrease.

#### ■ Internal Sources of Liquidity

During the reporting period the internal sources of liquidity registered an increase of the short-term liabilities, and a decrease in the short-term assets. The reason for the changes in assets are the reduced values of the investment properties held for sale and the decrease of the tax receivables compared to the previous reporting period. In the case of the liabilities, the accrued provisions for dividends for the financial year 2018 are a major factor for the increase.

**Short-term (current) assets**
**Table 5A** – Current assets as of 31.12.2018, 30.09.2018, 30.06.2018 and 31.03.2018.

Liquidity sources	31.12.2018	%	30.09.2018	%	30.06.2018	31.03.2018
<b>Current Assets</b>						
Investment property held for sale	726	4.33%	761	4.52%	782	782
VAT receivable	0	0.00%	54	0.32%	108	0
Trade receivable	197	1.18%	197	1.17%	177	162
Cash and cash equivalents	15,822	94.30%	15,782	93.84%	2,135	2,012
Other current assets	1	0.01%	1	0.01%	2	2
Deferred expenses	32	0.19%	22	0.13%	23	12
<b>Total Current Assets</b>	<b>16,779</b>	<b>100%</b>	<b>16,818</b>	<b>100%</b>	<b>3,226</b>	<b>2,970</b>

The total amount of the Company's current assets decreased slightly compared to the previous reporting period and reached EUR 16,779 thousand. In the past quarter, the major changes in the current assets are in the value of investment property, cash, as well as the VAT receivable account. The overall structure of current assets remained unchanged, with money and short-term deposits remaining the first with a share of 94.30%. During the next reporting period the cash at hand to the Company is expected to decrease as a result of the expenses that will be incurred in connection with the new project of the company in Sofia Tech Park.

On second place with a share of 4.33% were the investment properties, which value remained almost the same as for the previous reporting period. In this item are posted only the properties that form part of the residential building "Sequoia 2" in the Borovets resort and the reduction is due to apartment sold during the period. In the next reporting period, unless there are new sales of properties, the article is expected to retain its value.

Next, with 1.18%, were trade receivables and interest. They remain the same as the previous reporting period. No significant change in receivables is expected in the following reporting period.

The total amount of current assets in the subsequent reporting periods will mainly depend on realized rental income, and the realized expenses for the construction of the new building in Sofia Tech Park.

 o **Short-term (current) liabilities**
**Table 5B** – Current liabilities as of 31.12.2018, 30.09.2018, 30.06.2018 and 31.03.2018

Liquidity sources	31.12.2018	%	30.09.2018	%	30.06.2018	31.03.2018
<b>Current liabilities</b>						
Current part of non-current liabilities	603	21.37%	597	51.68%	593	589
VAT payable	13	0.47%	18	1.59%	9	72
Payables to management company	193	6.85%	191	16.50%	581	536
Payables to the personnel and SIC	1	0.02%	1	0.04%	1	0
Provisions for dividends due	1,756	62.24%	0	0.00%	351	351
Trade and Other current liabilities	255	9.04%	349	30.18%	189	184
<b>Total Current Liabilities</b>	<b>2,821</b>	<b>100%</b>	<b>1,156</b>	<b>100%</b>	<b>1,723</b>	<b>1,732</b>

Over the past quarter the total amount of short-term liabilities registered an increase of 144% compared to the previous reporting period and at 31.12.2018 reached EUR 2,821 thousand. The main reasons for the change are the provisions for a dividend for the financial year 2018 amounting to EUR 1,756 thousand.

The overall structure of current liabilities is changed, with the provisions for dividends thereon holding first position with 62.24%. The sum calculated in this manner represents 90% of the transformed financial result, determined in line with Article 10 of the Special Purpose Vehicles Act. The final sum designated for distribution as dividends for 2018 shall be determined after execution of the audited report of the Company and its respective adoption at the regular General

Meeting of Shareholders (GMS), when the financial results for the year 2018 shall be put to the vote.

Next with share of 21.37% is the article Current part of non-current liabilities. Their value amounted to EUR 603 thousand, the reported rise being due to the increasing payments under the repayment schedule on the principal of the loan. Expectations in the next reporting periods are that this amount will continue to rise as the current principal is increased.

Third, with a share of 9.04% of short-term liabilities are the Company's trade and other liabilities. The reported decrease is due to the expenses paid on the capital increase. Key entries in this article are the Company's obligations under warranties received under lease and advance payments, which will be retained in the next reporting periods. Substantial changes in current liabilities are not expected in the next quarter, changes may occur in the trade payables and taxes payable.

On fourth place with 6.85% are payables to the managing company which are slightly higher than in the previous period, as a result of outstanding management fees from previous periods. Another major part of the payables in this item are those related to the construction of the Kambanite Office Building and, respectively, the retention money withheld from the contractors, which serve as a guarantee of good performance. Such retention money is expected in the future under the new investment project of the Company.

Substantial changes in current liabilities are not expected in the next quarter, with changes mainly occurring in trade payables and payable taxes.

#### ■ External Sources of Liquidity

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

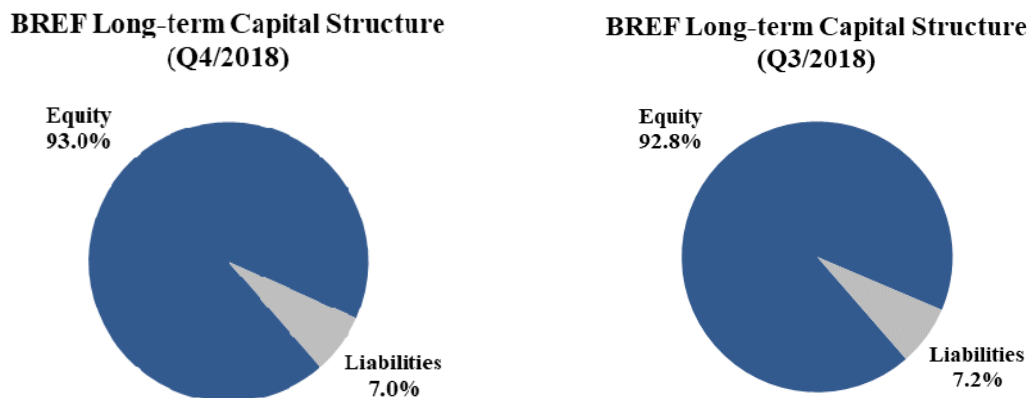
For the purpose of its ongoing projects, the Company has the financial resources that are sufficient to secure its operations over the next months. With regard to the development of the new investment project for an office building in Sofia Tech Park, along with the increased capital, the Fund plans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

### **3.3 Capital resources**

At the end of December 2018 the total long-term capital, both equity and borrowed, marked a little change down to EUR 57,580 thousands. Over the past quarter, the long-term capital structure did not see any significant change, with the share of borrowed funds being 7.0% and its equity at 93%.

During the next reporting periods, along with the realization of new financial results it is expected for the share of the own capital to continue increasing. The ratio between the own and attracted funds for the past three months was specified in the figures provided hereinafter below.

*Figure 2: Allocation between equity and external financing*



*Table 6 – Leverage ratios*

Leverage ratios	31.12.2018	30.09.2018	30.06.2018	31.03.2018
Debt-to-Equity	0.13	0.10	0.15	0.16
Non-Current Assets-to-Equity ratio	0.81	0.79	1.07	1.08
Long-term-Debt-to-Non-Current-Asset ratio	0.09	0.10	0.10	0.11

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

## ■ Equity

At the end of December 2018, the equity of BREF is EUR 53,571 thousand, which represents an increase of 0.06% as compared to the prior reporting period. The recorded increase is wholly due the profit realized by the Company for the period.

*Table 7 – Total equity as of 31.12.2018, 30.09.2018, 30.06.2018 and 31.12.2017*

Equity (in thousands)	31.12.2018	30.09.2018	30.06.2018	31.03.2018
Share capital	17,712	10,303	10,303	10,303
Share premium	30,361	37,772	23,849	23,849
Retained earnings	5,498	5,464	4,946	4,491
<b>Total equity</b>	<b>53,571</b>	<b>53,538</b>	<b>39,097</b>	<b>38,643</b>

As a result of the successful entry of the company's capital increase, there is also a change in the structure of the equity. As of the end of the reporting period, the share of premium reserves decreased as a result of the reporting of newly issued shares in the article on Share Capital.

## ■ External financing

During 2018 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 Kampanite. The interest due on the loan is based on 3-month SOFIBOR + 3.1%. After the change as of 01.07.2018 and the dropping of SOFIBOR, a reference interest rate PRIME is used for the calculation of the loan obligations. In the fourth quarter of 2018, the Company has regularly paid the due contributions on the investment loan. The outstanding principal amount as of the end of the period was EUR 4.62 million.

## ■ Capital expenses during the next periods under review

After the acquisition of the construction rights in Sofia Tech Park and the development of the architecture, the investment program of the Company during the next reporting periods will be mainly focused on the project implementation. After the technical design development, it is expected to be defined the project budget which according to previous information will be over EUR 33 million excl. the construction right price. To finance the project, the Company will use the capital raised during the year and at next stage will use borrowed capital.

Under the other projects, capital spending will be made for Building 1 in Business Park Sofia, where the lobby is undergoing renovation and a replacement of the roof insulation was performed.

## 3.4 Asset structure

The amount of the BREF assets by the end of the fourth quarter increased by 2.63% to EUR 60,401 thousand, as compared to the end of the prior period, when the amount of the assets was EUR 58,855 thousand. The recorded rise was mainly by revaluation of property at the end of the year as well as the accumulated cash from rents used for the accrued construction cost related to the construction right in Sofia Tech Park. In the next reporting period, with the realization of additional rental income, the assets are expected to continue to grow, as a more substantial change will be observed with securing external financing for the BREF investment program.

*Table 6 – Asset structure*

Asset structure (thousand EUR)	31.12.2018	% share	30.09.2018	% share	30.06.2018	31.03.2018
<b>Non-current assets incl.</b>	<b>43,622</b>	<b>72.22%</b>	<b>42,037</b>	<b>71.42%</b>	<b>41,905</b>	<b>41,864</b>
- total property	43,202	71.52%	41,758	70.95%	41,758	41,758
- cost for acquisition of fixed assets	416	0.69%	274	0.47%	141	99
<b>Current assets incl.</b>	<b>16,779</b>	<b>27.78%</b>	<b>16,818</b>	<b>28.58%</b>	<b>3,226</b>	<b>2,969</b>
- VAT receivable	0	0.00%	54	0.09%	108	0
- trade receivable	197	0.33%	197	0.34%	177	162
- investment property held for sale	726	1.20%	761	1.29%	782	782
- cash and cash equivalents	15,822	26.20%	15,782	26.82%	2,135	2,012
<b>Total assets</b>	<b>60,401</b>	<b>100%</b>	<b>58,855</b>	<b>100%</b>	<b>45,131</b>	<b>44,833</b>

In the fourth quarter of 2018, the structure of the Company's assets do not underwent substantial changes compared to the previous reporting period. There is increase in the share of long-term assets at the expense of short-term assets. The change comes as a result of the increasing value of real estate, as a result of the revaluations during the period.

During the next reporting period after the start of the new project it is expected that the amount of expenditures for acquisition of TFA shall commence to increase, which shall be at the expense of the pecuniary funds in the current assets.

## 3.5 Financial Results

The activity of the Company in the fourth quarter of 2018 was mainly focused on the management of revenue-generating projects for the Company, and managing the development of the project in Sofia Tech Park.

### Revenue from operations

In the period under review the reported revenues amounted to EUR 2,216 thousand, a two times increase compared to the previous quarter. The main reason for this increase is the reported and accounted net income from revaluation of property, carried out at the end of the year.

**Table 9 – Realized revenues by quarters and accumulated from the beginning of 2018**

Revenue (in thousand EUR)	Q4 - 2017	Q3 - 2018	Q2 - 2018	Q1 - 2018	2018
Income from sale of assets	21	21	-	-	42
Rental income	897	853	853	844	3,448
Other Income	1,298	1	-	6	1,304
<b>Total revenue</b>	<b>2,216</b>	<b>875</b>	<b>853</b>	<b>850</b>	<b>4,794</b>

The biggest share of 58.57 % of the revenues during the fourth quarter of the year was Other income item. The main shares have the net revaluations of property carried out at year-end and the earnings reported from the management of the residential building "Sequoia 2" in Borovets resort.

Secondly, with share of 40.48% is rental income. Its amount reaches EUR 1,298 thousand, which is an increase of 5.15% compared to the previous quarter. The reported increase is mainly due to the indexation of rental payments under lease agreements.

Revenues from sale of real estate reported in the current period are a result of the sale of a property in the residential building "Sequoia 2" in Borovets. In the next reporting periods, sales of other properties are not planned at the moment.

Expectations for the next quarter are that the total revenues will rise further, as the main reason for this will be an increase in the rental income. The change in revenues will be as result of the new lease agreement in Business Park Sofia and the forthcoming rental indexation under some other contracts.

#### ■ Expenses from operations

In the reported quarter the total expenses of BREF increased by over 19.31% compared to the previous reporting period and at the end of December 2018 reached EUR 426 thousand.

**Table 10 – Realized expenses by quarters and from the beginning of 2018**

Expenses (in thousand EUR)	Q4 - 2017	Q3 - 2018	Q2 - 2018	Q1 - 2018	2018
Value of sold assets	(21)	(21)	-	-	(42)
Interest expense	(38)	(39)	(40)	(41)	(159)
Management fees	(139)	(147)	(145)	(144)	(574)
Materials expense	(19)	(2)	(1)	(2)	(22)
BOD and employees salaries expense	(30)	(19)	(19)	(19)	(87)
Loss from fair value adjustments	-	-	-	-	0
Loss on financial instruments	-	-	-	-	-
Other expenses	(179)	(129)	(194)	(135)	(638)
<b>Total expenses</b>	<b>(426)</b>	<b>(357)</b>	<b>(398)</b>	<b>(341)</b>	<b>(1,523)</b>

During the fourth quarter with biggest share of 42.09% of the expenses are Company's Other expenses. The reported increase is result of reported costs of capital increase and costs associated with repairs and construction activities. The core expenses in this item are for taxes and fees related to real estate, for hired services on property management and maintenance, bank charges and other administrative costs. Through the following reporting periods it is expected that the amount of this article will remain on this level.

On second place with 32.49% share by the expenses are the Management fees. There is reduction of the remuneration of the managing company. During this quarter the capital increase was registered in the Commercial register and the change under the management contract, according to which the remuneration of MNI OOD will amount to 1% per annum of the net assets of the Company, entered into force.

With a share of 8.99% are the Interest expenses and include the paid and accrued interest on the loan of the Company. This item shows a decrease compared to the previous period due to the



decreasing principal on the loan of the Company. In the next reporting period, interest expense is expected to continue to decrease with the decrease in loan payables.

In the past quarter, as an expense is registered the written value of the sold property in Borovets. In the next quarter, such an expense is not foreseen.

Expectations are that in the next reporting period the expenses will keep the levels from the previous quarter, with a reduction in the written book value of the sold properties. Deviations can also be observed in the costs of remuneration of the managing company and also in the article Other expenses related to the company's properties and the annual audit of the financial reports of the Company.

## ■ Financial result

During the fourth quarter of 2018, the Company realized a profit within the amount of EUR 1,790 as the main contribution to the reported result is the reported net positive income from property revaluation. On the other hand, the reflection on the final accounting result of the realized transactions for the sale of real estates is minimal, because their book values already reflect the relevant market prices. In subsequent reporting periods, in the absence of new property revaluations, it is expected that the Company's profit will fall to the average of the previous quarters.

**Table 11** – Financial result by quarters and accumulated from the beginning of 2018

Financial Result	Q4 - 2017	Q3 - 2018	Q2 - 2018	Q1 - 2018	2018
Revenues	2,216	875	853	850	4,794
Expences	(426)	(357)	(398)	(341)	(1,523)
<b>Net profit/loss for the period</b>	<b>1,790</b>	<b>518</b>	<b>455</b>	<b>509</b>	<b>3,271</b>

The accounting profit divided by the adjusted average number of shares during the period gives the earning per share (EPS) of EUR 0.052, which take into account the increase in the number of shares.

After the capital increase, the total number of the Company's shares is increased to 34,642 thousand, as the profit of the Company for the first ten months is distributed to 20,150 thousands shares and for November and December of 2018 to the new number of shares, which brings yielding per share of 0.145 EUR.

Results per share (EUR '000)	2018 **	2017	2016	2015
Earnings	3,271	2,742	2,147	1,027
Earnings per share (EPS)	0.094	0.136	0.107	0.051
Net asset value (NAV)	53,571	38,134	35,743	34,357
Adjusted common shares outstanding	34,642	20,150	20,150	10,303
NAV per share	1.546	1.893	1.774	1.705
Dividend per share	0.0507	0.0174	0.0377	0.0408
Share fair value*	1.597	1.910	1.812	1.746

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

\*\* The net value of assets for 2018 was based upon an unaudited report, and for the period 2015-2017 in line with audited reports

\*\*\* Number of shares after 2018 capital increase

The NAV per share, according to the unaudited statement of the Company, decreased from EUR 1.893 per share at the end of 2017 to EUR 1.546 per share at the end of the 2018, as for the calculation at the end of the reporting period the total number of shares of the Company after the capital increase was taken. The reported decrease is a result of the change in the number of shares to 34,642 thousand.

## ■ **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 December 2018, considering the investment bank loan of the Fund, it is exposed to interest rate risk regarding possible changes in the interest rate levels. From 1 July 2018 Sofibor has been replaced with PRIME, which requires the Company to keep track of the expected changes to PRIME levels and if it is necessary to renegotiate the terms of the loan.

### ***Foreign currency risk***

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

### ***Liquidity risk***

The company is exposed to liquidity risk with regard to paying off its current liabilities. At the moment it has enough free funds to finance its operations and, after the capital increase, has the necessary funds to implement its investment program.

### ***Credit risk***

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

### ***Construction risk***

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

## 4 Share performance

In the fourth quarter of the year, the share price of Bulgarian Real Estate Fund REIT marks a slight decline in its stock price, following the marked gains in mid-2017 year, the change in the value of the shares on an annual basis is -14.57%.

The stock index BGREIT, which follows the performance of the sector, reported a total increase of 3.18% as its level reached 121.19 points in December. The index rose by 0.20% to 117.46 points in November, while in October it fell by 0.48% to 117.23 points. Real estate investment companies, however, continue to attract investor interest and their shares are traditionally one of the most traded on the BSE-Sofia.

After seven months of lost, in December the leading index of the Bulgarian stock exchange SOFIX turned the negative trend and finished the year 2018 on green territory. In October, the blue chip index recorded a decline of 4.42% to 596.81 points. In November SOFIX dropped 0.79% to 592.12 points.

The index of the most liquid companies BGBX 40 increased by 0.85% to 116.10 points in December. The indicator declined by 4.02% to 117.03 points in October, while in November it lost 1.63% to 115.12 points.

Despite the negative trends, there was a significant increase in the period trading on BSE - Sofia.

The main risk factors facing the Bulgarian economy and in particular public companies on the capital market are related to a potential slowdown in economic growth in Bulgaria and the EU – the country's main trading partner, as well as insufficient short- and long-term foreign investment in the country and in particular the BSE – Sofia.

Summarized trading details for the period 01.01.2018 - 31.12.2018:

- Opening Price – BGN 2.260 (02 January 2018)
- Closing Price – BGN 1.900 (28 December 2018)
- Highest Price – BGN 2.300 (11 January 2018.)
- Lowest Price – BGN 1.810 (03 April 2018)
- Total Trading Volume – 2,418,120 shares
- Turnover for the period – BGN 4,639,293 (EUR 2,372,033)
- Weighted average price – BGN 1.918
- Market Capitalization (31.12.2018) – BGN 65,819,658 (EUR 33,653,056)

**BREF Share Price Performance  
(01.01.2018 - 31.12.2018)**

