

“Bulgarian Real Estate Fund”

Summary Annual Report 2018



20 May 2018

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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
Bulgarian Stock Exchange Sofia	5BU (BREF)	EUR 33,653,056	34,641,925

2 Portfolio

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

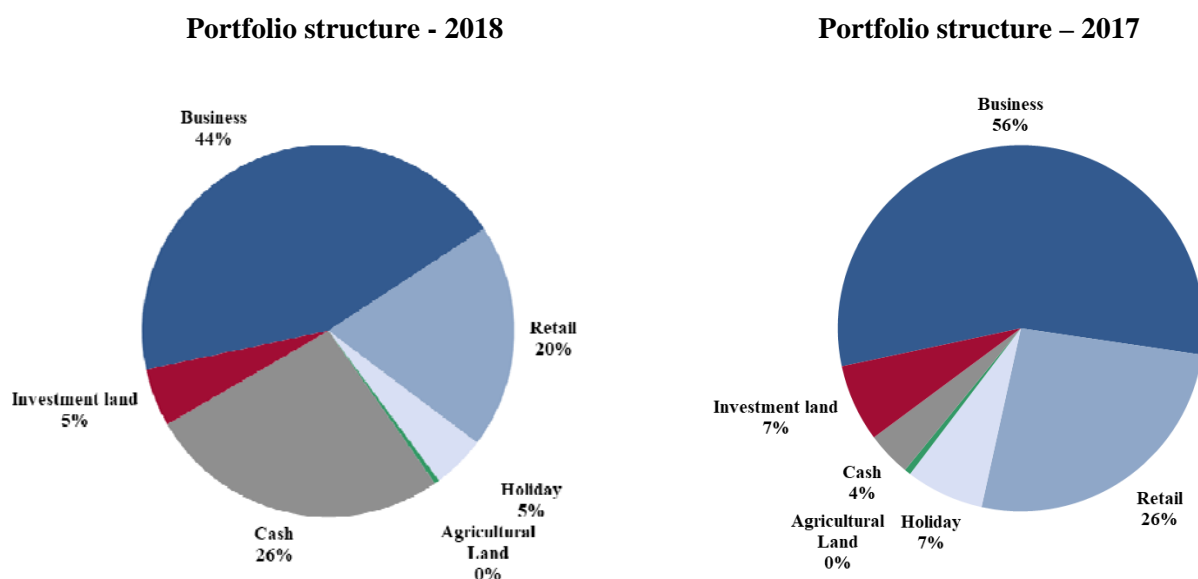
2.1 Portfolio structure

In 2018, the total amount of the Fund's portfolio increased, which is due mostly to the successful capital increase of the Company, which is applied to the cash effect. Also, during the year there was a significant change in the structure of the Company's portfolio. At the end of the year, with a share of 44% of the portfolio, business property took the leading position. The second position, is cash with a share of 26%, followed by the retail areas with a share of 20%, and the investment and vacation properties had share of 5% each. Expectations for the next year with the start of the construction activity of the new development project in Sofia Tech Park and the envisaged new investments in it, are the amount of the business properties to continue to increase at the expense of the cash. A change in the size of the portfolio and its structure may also occur when a new investment loan is successfully used to finance the construction of the new building

During the year, the company's activities were mainly focused in the following areas:

- Design of the new office building in Sofia Tech Park and start of the activities after obtaining a construction permit;
- Conducting of tenders for choosing construction companies for the development of the office building in Sofia Tech Park;
- Operational management of the Kambanite Office Building;
- Negotiating and signing of a new lease of premises in the Kambanite Office building;
- Handover of leased areas to Survey Sampling Bulgaria EOOD in 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 and renovation of the roof and installations in the store in Sofia;
- Preparation of a prospectus and organization of the Fund's capital increase.

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 year, 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
Current projects				
"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
Pipeline projects				
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
Total		41,619	44,315	16,873

* 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 project is in 2006. The investment is a "sale and leaseback" type, which subject are the two stores of the French "Do-It-Yourself" chain "Mr. Bricolage", situated in Varna ("Mladost" residential area) and in Sofia ("Tsarigradsko shosse" Blvd.).

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

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

Project parameters:

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

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

The rental agreements were regularly serviced in 2018. 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 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 centre 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 notary deed will be concluded at the final payment in April 2019.

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. The company's properties have a 100% occupancy rate and a total price of EUR 7.2 million.

During the past year, the lease agreement with Atos IT Solutions and Services EOOD came into force. The total leased area is 2,349,49 sq.m. and 12 parking spaces in the underground parking lot.

In the middle of the year one of the offices on the ground floor was freed. As of the end of September a new lease agreement with CC Smart Solutions was signed for this property, which entered into force at the end of the reporting period. The total area under this contract is 444.30 sq.m. along with six parking spots in the underground parking of the building. Thus, as the office was handed over the occupancy of the building is again 100%.

In 2018 the renovation of the lobby in the building was realized. In addition, the waterproofing of the roof of the whole building was replaced.

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.

During the reporting period was signed rental agreement with Survey Sampling Bulgaria EOOD. The contract is for 5 years and the total leased area is 912.76 sq.m. With the new premises the building's occupancy reached 89.42%. Other main tenants in the building are Modis Bulgaria EOOD with 6,902.31 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:

Office Building Kambanite	
Built-up area	13,205 sq.m
Leasable office area	9,356 sq.m.
Parking lots	214
Construction budget	EUR 8.98 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 acquisition is BGN 9,652,000 (EUR 4,934,989), 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 over the ground and 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. At the end of 2018 the Company received a construction permission № 336 / 04.11.2018 with the following parameters: Total built-up area above ground 34,998.88 sq.m. and total built-up area of 50,761.38 sq.m. The company finalized the first tenders for construction contractors, the construction works started in the beginning of 2019.

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

2.8 Project – Seaside Holiday Village

The project envisages the construction of Seaside Holiday Village on the Bulgarian seaside. 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 world 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 acquired 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 the beginning of 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 the signing of preliminary agreements during December, 2016, in the end of 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, in 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:

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

3 Financial Highlights 2018

3.1 Summarized Financial Statements

The following financial statements are created in full compliance with the International Accounting standards and are based on the audited annual financial statements for 2018 and 2017.

Table 3 – Balance sheet as of 31st December 2018 and 31st December 2017.

(All amounts in EUR '000)	31.12.2018	31.12.2017
ASSETS		
Non-current Assets		
Investment property	43,589	41,830
Equipment	3	5
Intangible assets	2	3
Total Non-current Assets	43,594	41,838
Current Assets		
Investment property held for sale	726	782
Trade and other receivables	236	83
Cash and cash equivalents	15,822	1,744
Deferred expenses	31	10
Total Current Assets	16,815	2,619
TOTAL ASSETS	60,409	44,457
EQUITY AND LIABILITIES		
Equity		
Share capital	17,712	30,907
Share premium	30,361	3,245
Retained earnings/(accumulated losses)	5,499	3,983
Total equity	53,572	38,135
Non-current liabilities		
Interest bearing loans	4,012	4,608
Other long-term liability	-	-
Total Non-current liabilities	4,012	4,608
Current liabilities		
Current portion of long-term interest bearing loans	600	583
Provisions for dividends due	1,765	351
Trade and other payables	460	780
Total Current liabilities	2,825	1,714
Total liabilities	6,837	6,322
TOTAL EQUITY AND LIABILITIES	60,409	44,457

Table 4 – P&L statement for 2018 and 2017

(All amounts in EUR '000)	2018	2017
Rental and service charge income	3,455	3,158
Income from sale of investment property	42	3,375
Interest income	0	1
Net gains from fair value adjustments	1,298	1,079
Other Income	9	58
Total Revenue	4,804	7,671
Value of sold property	(42)	(3,374)
Interest expense	(160)	(180)
Management fees	(572)	(551)
Direct operating expenses arising from properties	(599)	(672)
BOD remunerations	(58)	(59)
Employee benefit costs	(30)	(29)
Other expenses	(62)	(64)
Total expenses	(1,523)	(4,929)
Profit/(loss) for the period	3,281	2,742
Adjusted weighted average number of shares in the year (in thousands)	22,373	20,150
Earnings per share - basic and diluted	0.147	0.136

3.2 Liquidity

Table 5 – Liquidity ratios as of 31st December 2018 and 31st December 2017

Liquidity Ratios	31.12.2018	31.12.2017
Current ratio	5.95	1.53
Quick ratio	5.69	1.07
Cash ratio	5.60	1.02

In the past year, the liquidity ratios registered significant increase. The main change comes from the increase in cash which is a result of the company's capital increase. The current liquidity ratio had increased to 5.95, and quick and cash liquidity ratios had reached 5.69 and 5.60 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

In 2018 internal sources of liquidity registered a significant increase, as the rise of the short-term liabilities was higher. The basis for these changes is the increase in the capital of the company.

○ **Short-term (current) assets**

Table 5A – Current assets as of 31st December 2018 and 31st December 2017.

Liquidity sources	31.12.2018	%	31.12.2017	%
Current Assets				
Investment property held for sale	726	4.32%	782	29.85%
Trade and other receivables	236	1.40%	83	3.18%
Cash and cash equivalents	15,822	94.09%	1,744	66.58%
Deferred expenses	31	0.19%	10	0.39%
Total Current Assets	16,815	100%	2,619	100%

The total amount of the current assets of the Fund increased almost 6 times and at the end of the period it reached EUR 16,815 thousand. The basis for this change is the change in the value of the cash that marks growth due to the capital increase of the company. The overall structure of current assets remained unchanged, with cash and short-term deposits remaining the first with a share of 94.09%. The main reason for their increase, as mentioned above, are the accumulated funds from the capital increase during the year. 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 4.32% were the investment properties, which value decreased as of 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 1.40%, were trade receivables and interest. They have increased their amount as a result of advanced payments on construction contracts and receivables from tenants with deferred payments under leasing contracts. No significant change in receivables is expected in the next year.

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

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

Table 5B – Current liabilities as of 31st December 2018 and 31st December 2017.

Liquidity sources	31.12.2018	%	31.12.2017	%
Current liabilities				
Current portion of long-term interest bearing	600	21.26%	583	33.99%
Provisions for dividends due	1,765	62.45%	351	20.48%
Trade and other payables	460	16.29%	780	45.53%
Total Current Liabilities	2,825	100%	1,714	100%

During the last year the total amount of the short-term liabilities increased by 64.76%, reaching EUR 2,825 thousand at period-end. The main reasons for the change are the provisions for a dividend for the financial year 2018 amounting to EUR 1,765 thousand.

The overall structure of current liabilities is changed, with the provisions for dividends thereon holding first position with 62.45%. 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 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 21.26% is the article Current part of non-current liabilities. Their value amounted to EUR 600 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, 16.29% of short-term liabilities are the Company's trade and other payables. The decrease in this article is mainly because of payments to the managing company which have decreased compared to the previous period the old liabilities. Key entries in this article are the Obligations of the Fund under warranties received under lease and advance payments, which will be retained in the next reporting period. Substantial changes in current liabilities are not expected in the next reporting period, as changes may occur in particular in obligations related to the construction of the new building.

In the following year, significant changes in current liabilities are not expected, changes may occur mainly in trade payables and in dividend provisions.

■ **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 total long-term capital of the Company, own and attracted, increased by 34.72% to BGN 57,583 thousand. This change was due the successfully completed public offering of shares. Of the proposed 20 150 000 ordinary dematerialized shares with a nominal value of BGN 1 and issue value of BGN 1.90, a total of 14 491 925 shares were subscribed and paid in real terms and paid into the accumulation account BGN 27 534 657.50. Over the past year, the long-term capital structure saw a decrease in attracted capital and thus its share reached 7.0%, compared to 10.8% by the end of 2017.

In the next reporting periods, with the realization of new financial results and the continued repayment of the principal of the absorbed bank loan, the share of the equity capital is expected to continue to increase. A change in this trend will occur with the absorption of additional borrowing funds necessary for the realization of the new project. The distribution between equity and attracted funds for the past two years is presented in the figures below.

Figure 2: Allocation between equity and external financing

BREF Long-term Capital Structure (2018) BREF Long-term Capital Structure (2017)

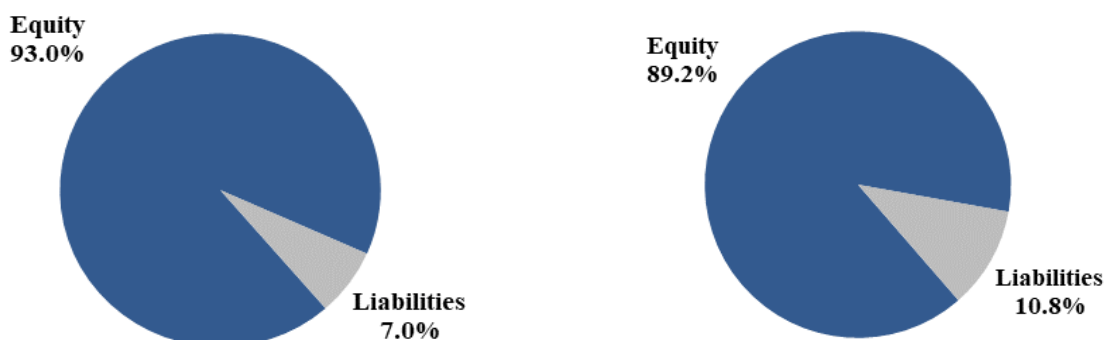


Table 6 –Leverage ratios

Leverage ratios	31.12.2018	31.12.2017
Debt-to-Equity	0.07	0.12
Non-Current Assets-to-Equity ratio	0.81	1.10
Long-term-Debt-to-Non-Current-Asset ratio	0.09	0.11

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

■ Equity

At the end of 2018 the equity of BREF is EUR 53,572 thousand, which represents an increase of 40.48% as compared to 2017. The recorded rise is due to the successful capital increase of the company when a total of 14,491,925 new shares were signed and as a result an amount of EUR 14,078,246.80 was accrued to the company's account.

Table 7 – Total equity as of 31st December 2018 and 31st December 2017.

Equity (in thousands)	31.12.2018	31.12.2017
Share capital	17,712	30,907
Share premium	30,361	3,245
Retained earnings/(accumulated losses)	5,499	3,983
Total equity	53,572	38,135

During the past year, significant changes are also observed in the structure of equity. The reasons for these changes are two. The first is Entry in the Trade register of changes in the Company's Articles of Association, voted on the extraordinary conduct General Meeting of Shareholders on 28.02.2018. Under these changes, the capital of the Company was reduced from BGN 60.45 million. to BGN 20.15 million, the difference of BGN 40.30 million. has been transferred to the Reserve Fund. Secondly is the increase of the capital as of the second half of the year. As a result the amount received is reported in the share capital (the nominal value of the new shares) and part of the Premiums (the difference to the issue price less the costs under the capital increase procedure itself). The result is a significant increase in Share premium.

■ 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 Kambanite. 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 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 initial 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.

3.4 Asset structure

The amount of the Fund's assets at the end of December 2018 increased by 35.88% to EUR 60 409 thousand compared to the end of 2017, when the assets were EUR 44,457 thousand. The reported increase is mainly due to the increase in cash as a result of the company's capital increase. In the next reporting period, with the realization of additional rental income, it is expected that the assets will continue to grow, with more substantial change being observed in the provision of external financing for the BREF investment program.

Table 6 – Asset structure

Asset structure (thousand EUR)	31.12.2018	% share	31.12.2017	% share
Non-current assets incl.	43,594	72.2%	41,839	96.5%
- total property	43,589	72.2%	41,830	96.4%
Current assets incl.	16,815	27.8%	2,619	6.0%
- trade receivable	236	0.4%	83	0.2%
- investment property held for sale	726	1.2%	782	1.8%
- cash and cash equivalents	15,822	26.2%	1,744	4.0%
Total assets	60,409	100%	43,377	102%

In 2018 the structure of the Company's assets underwent significant changes compared to the previous reporting period. There is an increase in the share of short-term assets at the expense of long-term assets. The change comes as a result of the increasing cash and the 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

■ Revenue from operations

During the past year, the Company's revenues registered a significant decrease compared to the previous period and reached EUR 4,804 thousand, a decrease of 37.38% compared to 2017. The main reason for this difference is the reported revenues from the sale of properties in Mladost 4 in Sofia in 2017, which are missing in 2018.

Table 9 – Realized revenues in 2018 and 2017.

Revenue (in thousand EUR)	2018	% share	2017	% share
Rental and service charge income	3,455	71.9%	3,158	41.2%
Income from sale of investment property	42	0.9%	3,375	44.0%
Interest income	0	0.0%	1	0.0%
Net gains from fair value adjustments	1,298	27.0%	1,079	14.1%
Other Income	9	0.2%	58	0.8%
Total revenue	4,804	100%	7,670	100%

In the course of 2018, the revenue structure had a significant change as the main revenue with a much larger share - of 71.9% is the rental income. Their amount reaches EUR 3,455 thousand, an increase of 9.42% compared to the previous year. The reported increase is mainly due to the updated rental payments and the new lease agreement in the Kambani Green Offices.

Next, with a share of 27.0%, is the net property revaluation income, which, in 2018, is in the amount of EUR 1,298 thousand. The main reason for this result are the positive revaluations of the two office buildings of the Company in Business Park Sofia and the Kambani Green Offices on the Ring Road.

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. The company is actively working on the sale of other properties from this building, which will result in this article in 2019.

The Other income item mainly reflects revenue from the management of the Sequoia 2 residential building in Borovets.

Expectations for the next year 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 past year, the total expenses of the BREF decreased by 69.10% compared to the previous reporting period and at the end of 2018 reached EUR 1,523 thousand. The main reason for this decrease is the value of the properties sold in the fourth quarter of 2017 in Mladost IV in Sofia, such are not recorded during the current year.

Table 10 – Realized expenses 2018 and 2017.

Expenses (in thousand EUR)	2018	% share	2017	% share
Value of sold property	(42)	2.8%	(3,374)	68.5%
Interest expense	(160)	10.5%	(180)	3.7%
Management fees	(572)	37.5%	(551)	11.2%
Direct operating expenses arising from properties	(599)	39.3%	(672)	13.6%
BOD remunerations	(58)	3.8%	(59)	1.2%
Employee benefit costs	(30)	2.0%	(29)	0.6%
Other expenses	(62)	4.1%	(64)	1.3%
Total expenses	(1,523)	100%	(4,929)	100%

The lack of larger sales of properties during the year also changes the structure of the expenses of the Company. With the largest share of 39.4% in 2018 is "Direct operating expenses arising from properties". Their reduction is mostly related to the smaller size of the local taxes and fees paid during the year. This change is because of the sales of properties in 2017, for which no obligations have been charged in the past year. Other more significant costs reported in this article are those for maintenance of buildings, repairs and fees for professional property management services.

Next, with a share of 37.5% is the Management fees. The reported changes are related to the change in the size of the BREFs net assets and, respectively, a change in the management fee. During 2018 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.

In 2018, with a share of 10.5% is interest costs 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.

The article "Other costs" shows a decrease compared to the previous one year. The main recorded costs are those related to administrative management of the Fund and its public character.

Expectations are that in the next reporting period the expenses will keep the levels as this reporting period. 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.

■ Financial result

Table 11 – Financial result for 2018 and 2017.

Financial Result	2018	2017
Revenues	4,804	7,671
Expences	(1,523)	(4,929)
Net profit/loss for the period	3,281	2,742

In the past year, BREF reported a profit of EUR 3,281 thousand. The main reasons for the increased result are the higher rental income, including the revenue of the Kambanite Green Offices and the positive net revaluations of properties of the Company. On the other hand, the impact on the final accounting result of the realized deals on the purchase and sale of properties is minimal because their respective book values have already reflected the respective market value.

Expectations for the next reporting period, in the absence of new transactions for purchase and sale of real estate, are that the book profits will keep their amount from the previous year, as deviations can be observed due to a change in the amount of net revaluations of properties.

After the capital increase, the total number of the Company's shares at the end of the year was increased to 34,642 thousand. The accounting profit divided by the adjusted average number of shares during the period gives the earning per share (EPS) of EUR 0.147. The projected earnings for the distribution of dividends for 2018, determined in accordance with the requirements of Art. 10, para. 3 of SIPC is EUR 1,756 thousand, which earns a gross dividend per share of EUR 0.0789 per share (based on a weighted average number of 22,373 thousand shares) or BGN 0.0509 per share (based on 34,642 thousand shares).

The following table shows the results based on the current number of shares:

Results per share (EUR '000)	2018	2017
Earnings	3,281	2,741
Earnings per share (EPS)	0.147	0.136
Net asset value (NAV)	53,572	38,135
Adjusted common shares outstanding	34,642	20,150
NAV per share	1.546	1.893
Dividend per share	0.0509	0.0174
Fair value per share	1.597	1.910

The net asset value per share (NAV) during the past reporting period decreased from EUR 1.893 per share to EUR 1.546 per share, as of the end of 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 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.

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 noncompliance 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.

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 Fund 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 Fund to non-collected receivables is minimized. The major credits risk the Fund is exposed to with regard to the other financial assets (other than trade receivables), arises as a result of the deposits opened with the bank institutions.

■ ***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. As a result of these efforts, the Kambanite office building was awarded the LEED Gold certificate, and the new project also follows the standards for green buildings, which will significantly reduce its impact on the environment and reduce the consumption of water, electricity and gas.

4 Events after the reporting date

No other events occurred after the annual closing of the accounts, which could affect the market price of the Company.

5 Share performance

In the past 2018, the share price of Bulgarian Real Estate Fund REIT posted a decline of 14.57% and most of the year the securities were traded in the range BGN 1.80 - 2.00. During the year a total of 1 379 transactions were made with the Company's shares in the Main Market of the Bulgarian Stock Exchange (BSE).

The growth in the segment of listed special purpose vehicles continued to slow down in 2018 after strong growth in the past two years. The stock index BGREIT, which follows the performance of the sector, reported a total increase of 4.28% as its level reached 121.07 points in the end of 2018. Real estate investment companies, however, continue to attract investor interest and their shares are traditionally one of the most traded on the BSE-Sofia in 2018. Both in terms of number of transactions and in terms of turnover.

While the segment of SPVs ended in 2018 with a positive result (the BGREIT sector index reported an increase), the capital market as a whole sent a less successful year. The main stock index SOFIX ended the year with a decrease of 12.25% to 594.46 points and the broad BGBX 40 lost 12.19% of its value and its level at December 31, 2018 reached 115.91 points.

Negative development was also observed in the volume of trade on the Bulgarian Stock Exchange. In 2018, the regulated market turnover reached BGN 550 million, recording a decrease of 22% compared to the results reported in the previous year.

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 52 week period – 1st January 2018 – 31st December 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 Capitalisation (31.12.2018) – BGN 65,819,658 (EUR 33,653,056)

BREF Share Price Performance (01.01.2018 - 31.12.2018)

