

# **“Bulgarian Real Estate Fund”**

## **Summary Annual Report 2016**



15 May 2017

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## 1 Overview of the Fund

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

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

The principle investment objective of the Fund is to provide its shareholders with a combination of current income and long-term appreciation of the common stock value. To achieve the set targets, BREF implemented a strategy to acquire, develop, manage and lease properties that have superb potential for cash-flow growth and capital appreciation. With these objectives BREF constructed a portfolio of 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 (31.12.2016)	Shares Outstanding
Bulgarian Stock Exchange Sofia	5BU (BREF)	EUR 23,355,839	60,450,000

## 2 Portfolio

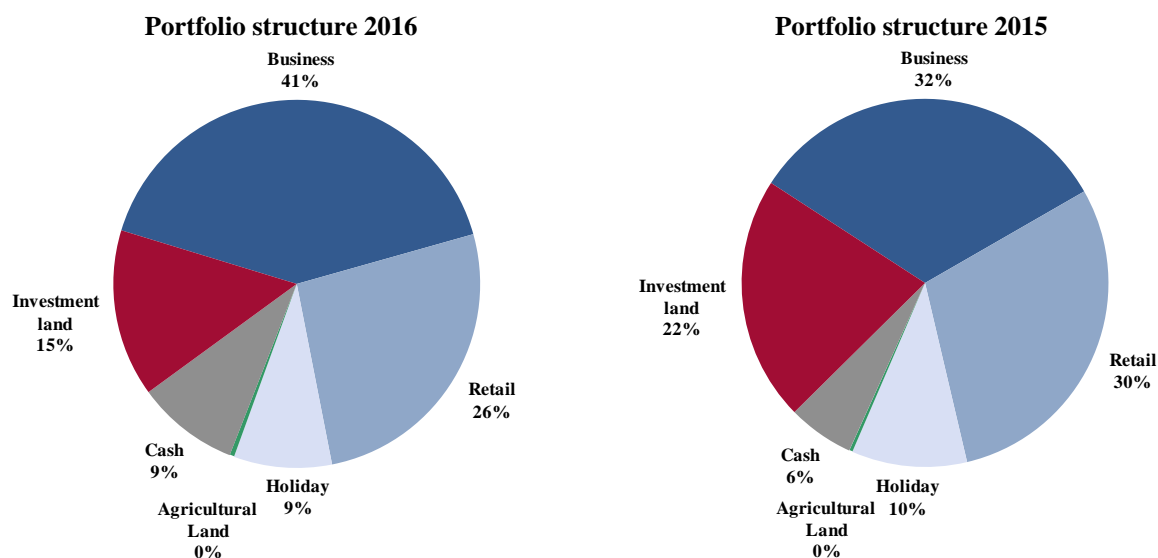
BREF has engaged in numerous projects ranging in size, activity and geographical location. Our diversified portfolio may provide some protection from the ups and downs of individual properties such as occupancy rates, defaults on rents, and downturns in industry sectors or local markets.

### 2.1 Portfolio structure

In 2016 the total value of the portfolio of BREF grew, provided that the major contribution to this was the utilized bank loan for the construction of the new office building of the Fund in Sofia. The increase of the value of the portfolio was associated with a change of its structure, provided that the major factors for this were the accomplished property sales over the year, the additional cash accumulated in the accounts of the Company and the funds invested in the construction of the new office building at the Sofia ring road. As a result, at the end of 2016 the share of the business properties and of cash significantly grew, while the largest reduction was observed in the share of the investment lands. The business properties kept the leading position, with 41% of the portfolio, largely influenced by the completion and commissioning of the new office building of the Company. The retail areas were the runner-up with 26%, keeping their amount, however with reduction of the relative weight in the portfolio. The investment properties recorded a considerable drop, being as low as 15%, as a result of the accomplished property sales in Mladost 4 district, Sofia, and of the properties in the surroundings of Veliko Tarnovo. During the next year, after the completion of the sales at the end of the year of two of the properties in Mladost 4 district, Sofia, the share of the investment properties is expected to drop and that of the cash - to increase. Changes in the structure are likely in case the Fund commences new projects. The key highlights during the past year were as follows:

- Organizing the construction works of Kampanite Office Building and the facility maintenance and putting the building into operation;
- Marketing the new office building and signing the first lease agreements;
- Securing bank loan for financing the construction works of the new building;
- Organizing the fit-out works for the leased premises according to the tenants' requirements and handover the ready premises;
- Operational management of Building 1 in Business Park Sofia;
- Reconstruction and the expansion of Mr.Bricolage store in Varna;
- Sale of an apartment in Apartment house Sequoia 2 – Borovetz;
- Sale of plots near Veliko Tarnovo;
- Sale of a plot and signing preliminary sale agreement for another two plots in Mladost 4 in Sofia;
- Assessment of 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 December 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 year 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	Historical value	Balance sheet value 31.12.2016	Future investments
<b>Current projects</b>				
"Mr. Bricolage" - sale and leaseback	operational management	10,378	11,383	0
Agricultural land	operational management	58	174	0
Apartment house "Sequoia 2" - Borovetz	for sale	1,664	760	0
Office building 1 - Business Park Sofia	operational management	7,410	7,891	51
Kambanite Office Building	operational management	8,549	9,817	307
Investment plots in Sofia - Mladost IV*	for sale	4,635	3,368	
<b>Pipeline projects</b>				
Seaside Holiday Village	suspended	2,254	2,973	0
Investment plots near Veliko Tarnovo*	suspended	192	622	n.a
Investment plots near Vidin*	suspended	301	631	n.a
Investment plots in Sofia - Mladost IV*	suspended	4,817	1,770	n.a
<b>Total</b>		<b>40,259</b>	<b>39,389</b>	<b>358</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, Kambanite Office Building and Agricultural land are currently operational. Apartment house "Sequoia 2" and part of the Investment plots in Sofia – Mladost IV are 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

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 ("Tzarigradsko 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. At the end of 2016 the loan is fully paid and in 2017 the loan collateral is set to be removed.

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.

At the end of 2015 at the request of the tenant it was resolved that in 2016 the store in Varna would be expanded and reorganized. As a result of this decision in January 2016 a contract for the necessary construction works was signed and the extension itself was accomplished within the first quarter, with a total amount of the investment of approximately EUR 268 thousand. As a result of the reorganization the amount of the rent stipulated in the rental agreement was increased as of the second quarter of 2016.

The rental agreements were regularly serviced in 2016. After the updating in 2017 the contemplated annual net rental income from both sites will be EUR 1,083 thousand.

The next year will see replacement of some of the systems of the property in Sofia in order to maintain its functionality.

### 2.3 Project – Agricultural Land

In 2015, following the entry into force of court decision BREF wrote off 121 dka of agricultural land. Later in 2016, after renewal of part of the above mentioned lawsuits and reaching a favorable decree, not subject to an appeal, the Fund recognized back 121 dka of land, following which the total area of the agricultural land owned by the Fund was 404 dka. The rented land is 207.1 dka, or 51%. The average rental payment is approximately BGN 48 per decare.

#### Project parameters:

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

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

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

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

During the past year one apartment was sold and as of the end of December 2016 a total of ten apartments had been disposed of. 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 1.66 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 100%. The total price is EUR 7.2 million.

During the last year UNIFY SERVICE CENTER EOOD, one of the tenants in the building, expanded the rented areas by adding Studio 1 on the 5th floor. The rented space is 255.49 square meters and the building is now 100% rented. Moreover, at the end of the year the Company executed an annex with Bulpros Consulting AD to extend their rental agreement until 31 March 2020.

For 2017 replacement of the roof waterproofing of the whole building and renovation of the lobby of the building is scheduled.

**Project parameters:**

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

**2.6 Project – Office Building 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 office building of the highest class, which meets all criteria for green buildings and offers all amenities typical for such buildings.

The developed within the period 2015-2016 building comes with a total built-up area of 13,498 sq.m., of which the leasable office area and related premises occupy 9,583 sq.m., the restaurant has an area of 425 sq.m., and there are 215 parking spaces, of which 74 in the underground parking.

In October 2016 the building was issued an occupancy permit and was commissioned. Some finishing works are still under way; however they do not obstruct the operation of the building. Such works include the finishing of the park area around the building, recovery of the road pavement damaged during the construction works, preparation of an interior design of the lobby of the building, etc. In accordance with the construction agreements, the Company keeps the construction guarantees, which are to be repaid in 2017-2018, as evidenced in the corresponding agreements.

In January 2016 a contract for bank financing of the construction in the amount of up to BGN 11 million was executed. By the end of the year the Company utilized BGN 10 million. The payment of the principal of the loan started in 2017.

The first rental agreement for office areas in the new building was signed at the end of March 2016. The tenant is Konica-Minolta. The contract term is 5 years and the rented area is approximately 580 square meters. In addition, 21 parking spaces within the territory of the

building were rented together with the office. At the end of the year 26 square meters and 4 more parking spaces were added, the total rented area being 606 square meters and 25 parking spaces. At the end of the year all premises and parking spaces were delivered to the tenant and were generating rental income.

A second rental agreement was signed in July 2016 with Adecco Bulgaria EOOD. The contract term is 5 years and the rented area is approximately 6,216 square meters. In addition, 30 parking spaces in the underground parking of the building were rented together with the office. At the end of the year the tenant rented 12 more parking spaces in the outdoor parking. All fit-out construction works to bring the offices in compliance with the tenants requirements were completed in Q4. In December one of the floors was handed over and the remaining areas were delivered in early 2017.

The last agreement was made with Victoria G 2011 EOOD, which rented the restaurant in the building. The design of the newly rented space was developed in the end of 2016 and the beginning of 2017 and the repair for the construction of the restaurant started in the end of February 2017.

After the execution of the last rental agreement and the rented additional area to Konica-Minolta, the occupancy rate reached 72.42%. 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 held also during the last year. The winner is FIRST FACILITY BULGARIA EOOD. The company was engaged to organize the commissioning of the building and the following 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
Total cost (land and construction)	EUR 8.5 M
Occupancy rate	72.42%

**2.7 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:**

<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 Turnovo. The properties constitute agricultural land and are still not zoned. In 2015 the Company accomplished a transaction for the sale of part of the properties with an area of 24,445 square meters and in



May 2016 second transaction for the sale of another 30,250 square meters was executed. The value of the second transaction is BGN 250 thousand. After the two sales the remaining properties owned by BREF have a total area of 148,554 square meters. Meanwhile the Fund temporarily has rented out the properties as agricultural land.

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

**Project parameters:**

<b>Investment Plots near Veliko Turnovo</b>	
Total plots' area	148,554 sq.m
Purchase price	EUR 192,000
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 beginning of the year BREF owned 16 properties situated at the Sofia ring road, at the junction with Alexander Malinov Blvd., in westward direction, opposite Business Park Sofia. The total area of the owned properties was 33,105 sq.m. That area was arrived at as a result of the adoption of the new spatial development plan of the area, the official documents that the Company received in 2015. According to that plan, part of the old properties owned by BREF, were replaced by new ones, with better construction development parameters, provided that the area of the properties was 25% less and they were situated elsewhere. The new construction development parameters include floor area ratio of 3.5 and density of 60%. Thus, after the reduction of the area by 8,375 sq.m. and the transformation of the land plots, BREF remained the owner of properties with a total area of 33,105 sq.m., of which 25,132 sq.m. zoned and 7,973 sq.m. unzoned, designated as green areas.

During 2016 Q2 the Company sold one of the newly zoned properties with an area of 3,616 sq.m. The selling price was EUR 250 per sq.m. The final sale was completed in the end of April 2016. After the sale the Company remained owner of 29,489 sq.m, out of which 21,516 sq.m are zoned and the unzoned land constitutes grass areas. These were the areas owned by the Company at the end of 2016.

In December 2016 the Company executed two new preliminary agreements for the sale of two more of the zoned land plots in Mladost IV in Sofia with an area of 13,471 sq.m, and acquisition value of EUR 4,635 thousand. The negotiated selling price was EUR 250 per sq.m. The final sales are to be completed by the end of November 2017. After the sale the Company will own 16,018 sq.m, out of which 8,045 sq.m will be zoned and the rest unzoned that constitutes green areas.

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

**Project parameters:**

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

## 3 Financial Highlights 2016

### 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 2016 and 2015.

**Table 3 – Balance sheet as of 31<sup>st</sup> December 2016 and 31<sup>st</sup> December 2015.**

(All amounts in EUR '000)	31.12.2016	31.12.2015
<b>ASSETS</b>		
<b>Non-current Assets</b>		
Investment property	35,261	34,070
Equipment	2	-
Intangible assets	-	1
Other financial assets	-	360
<b>Total Non-current Assets</b>	<b>35,263</b>	<b>34,431</b>
<b>Current Assets</b>		
Investment property held for sale	4,128	778
Trade and other receivables	72	110
Cash and cash equivalents	3,903	1,795
Deferred expenses	11	10
<b>Total Current Assets</b>	<b>8,114</b>	<b>2,693</b>
<b>TOTAL ASSETS</b>	<b>43,377</b>	<b>37,124</b>
<b>EQUITY AND LIABILITIES</b>		
<b>Equity</b>		
Share capital	30,907	30,907
Share premium	3,245	3,245
Retained earnings/(accumulated losses)	1,592	205
<b>Total equity</b>	<b>35,744</b>	<b>34,357</b>
<b>Non-current liabilities</b>		
Interest bearing loans	4,559	-
Other long-term liability	79	-
<b>Total Non-current liabilities</b>	<b>4,638</b>	<b>0</b>
<b>Current liabilities</b>		
Current portion of long-term interest bearing loans	540	964
Derivative financial liability	-	23
Provisions for dividends due	760	822
Trade and other payables	1,695	958
<b>Total Current liabilities</b>	<b>2,995</b>	<b>2,767</b>
<b>Total liabilities</b>	<b>7,633</b>	<b>2,767</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>43,377</b>	<b>37,124</b>

**Table 4 – P&L statement for 2016 and 2015**

(All amounts in EUR '000)	2016	2015
Rental and service charge income	2,141	2,037
Income from sale of investment property	1,061	132
Interest income	4	6
Gain on derivative financial instrument	23	58
Net gains from fair value adjustments	1,259	249
Other Income	89	11
<b>Total Revenue</b>	<b>4,577</b>	<b>2,493</b>
Value of sold property	(1,159)	(167)
Interest expense	(104)	(103)
Management fees	(523)	(519)
Direct operating expenses arising from properties	(494)	(488)
BOD remunerations	(56)	(58)
Employee benefit costs	(29)	(28)
Other expenses	(65)	(103)
<b>Total expenses</b>	<b>(2,430)</b>	<b>(1,466)</b>
<b>Profit/(loss) for the period</b>	<b>2,147</b>	<b>1,027</b>
<b>Adjusted weighted average number of shares in the year (in thousands)</b>	<b>20,150</b>	<b>20,150</b>
<b>Earnings per share - basic and diluted</b>	<b>0.107</b>	<b>0.051</b>

### 3.2 Liquidity

**Table 5 – Liquidity ratios as of 31<sup>st</sup> December 2016 and 31<sup>st</sup> December 2015.**

Liquidity Ratios	31.12.2016	31.12.2015
Current ratio	2.71	0.97
Quick ratio	1.33	0.69
Cash ratio	1.30	0.65

The major factors that have influenced the liquidity ratios are the increased amount of cash of the Company and the transfer of two of the properties in Mladost 4, Sofia, from the long-term into the short-term assets. The last action followed from the executed preliminary agreements for the sale of these properties and the contemplated closing the transactions within the current year. The overall effect from these actions was several times bigger values of all liquidity ratios. The current liquidity value exceeded 2, reaching 2.71, and the quick and cash liquidity ratios exceeded 1, being 1.33 and 1.30 respectively. During the next reporting period the major factors that are expected to have an impact on the liquidity ratios are the cash proceeds from rents from the new building and the starting repayment of the principal under the new loan. The net effect is expected to contribute to the improvement of the liquidity ratios.

#### ■ Internal Sources of Liquidity

In 2016 the internal sources of liquidity marked an increase, especially in the short-term assets. These changes occurred as a result of the increased amount of cash and the investment properties in the assets and the received advance payment under the executed preliminary agreements for the sale of the properties in the liabilities.

○ **Short-term (current) assets**

**Table 5A** – Current assets as of 31<sup>st</sup> December 2016 and 31<sup>st</sup> December 2015.

Liquidity sources	31.12.2016	%	31.12.2015	%
<b>Current Assets</b>				
Investment property held for sale	4,128	50.88%	778	28.87%
Trade and other receivables	72	0.88%	110	4.12%
Cash and cash equivalents	3,903	48.11%	1,795	66.63%
Deferred expenses	11	0.13%	10	0.38%
<b>Total Current Assets</b>	<b>8,114</b>	<b>100%</b>	<b>2,693</b>	<b>100%</b>

In 2016 the main changes in the short-term assets were observed in the value of the investment properties and in cash. As a result of that, the total amount of the current assets of BREF increased more than 3 times, reaching EUR 8,114 thousand at year-end. These changes led to change in the overall structure of the current assets, the investment properties taking up the largest share of 50.88%. The value of the properties in Mladost 4, Sofia, for which preliminary sale agreements were signed, were transferred into this item in the course of the year, in addition to the book value of the residential building Sequoia 2 in Borovets resort. During the next year, with the sale of the properties in Mladost 4 district, Sofia, the value of the investment properties is expected to drop significantly and they are expected to lose the large share in the structure of the short-term assets.

Cash, with amount increasing to EUR 3,903 thousand, was second accounting for 48.11%. The utilization of the bank loan extended to the Company for the construction of the Kambanite Office Building and the property sales accomplished during the year preconditioned the registered growth. The downward movement during the period was caused by the payment of the 2015 dividend to the shareholders and the payments for the construction of the new building of the Company. During the next reporting period, with the increase of the income from rents from the new building and the accomplishment of the property sale transactions in Sofia, the amount of cash is expected to increase significantly, provided that a downward movement may occur in case the Funds starts a new project.

The trade receivables and interest dropped as compared with the previous year, the item containing mainly the current receivables from tenants, advance payments to suppliers, deposits and interest accrued under such deposits. The recorded decrease was mainly a result of the VAT refundable paid to the Fund, which was accumulated at the end of the prior year in the course of the construction activities of the Company. Major changes in the item are not expected during the next year.

The total amount of the current assets during the next reporting periods will mainly depend on the generated income from rents and the accomplished property sales.

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

**Table 5B** – Current liabilities as of 31<sup>st</sup> December 2016 and 31<sup>st</sup> December 2015.

Liquidity sources	31.12.2016	%	31.12.2015	%
<b>Current liabilities</b>				
Current portion of long-term interest bearing loans	540	18.03%	964	34.84%
Derivative financial liability	-	0.00%	23	0.83%
Provisions for dividends due	760	25.38%	822	29.71%
Trade and other payables	1,695	56.59%	958	34.62%
<b>Total Current Liabilities</b>	<b>2,995</b>	<b>100%</b>	<b>2,767</b>	<b>100%</b>

During the last year the total amount of the short-term liabilities increased by 8.22%, reaching EUR 2,995 thousand at period-end. The major reason for the increase was the advance payments received under both preliminary property sale agreements and the VAT assessed payable at the end of the year. These changes led to the corresponding change in the structure of

the current liabilities, provided that the increase of the trade receivables is associated with decrease of the other liabilities.

After the last changes, Trade and other payables were first, with 56.59%. Apart from the received advance payments under the preliminary property sale agreements and the VAT assessed, this item also contains the payments to the managing company. These are mainly obligations related to guarantee amounts held under performance bonds of the construction companies and accrued outstanding management fees. During the current year, with the accomplishment of the final sales until the end of November 2017 of both plots in Sofia, the advance payments received thereunder will be recognized as income and the total sum of the sales will be carried into the income statement of the Company. In addition, with the expiry of the terms to hold the guarantee amounts of the construction companies and after their payment, it is expected that the amount of the trade liabilities will further decrease.

At the second place, with a share of 25.38% of the current liabilities are the Provisions for dividends for 2016 year in the amount of EUR 760 thousand. The calculated amount represents 90% of the transformed financial result, determined in compliance with art. 10 of the Special Purpose Vehicles Act. The final amount to be distributed as a dividend for 2016 will be determined at the regular General meeting of the shareholders at which the financial results for 2016 will be put to vote.

The Short-term loans and assessed interest item is next with 18.03%. This item includes the amount of the contributions under the principal of the remaining investment loan of the Company payable during the next one year and the interest accrued under it by the end of the year. The registered decrease was a result of the investment loan under the Mr. Bricolage project which expired in the end of 2016 and of its removal from the balance sheet of the Company. The amount is expected to slightly increase during the next reporting period with the increase of the currently payable principal under the loan.

During the next reporting period BREF foresees that the value of the short-term liabilities will decrease and the main reason for this will be the reduced amount of the trade liabilities and the expected smaller amount of the provisions for dividends.

### ■ 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.

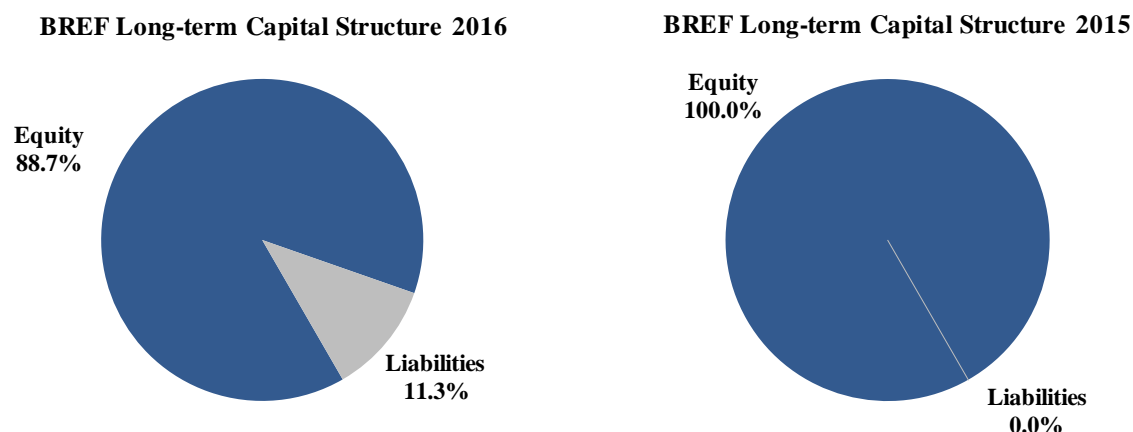
For the purposes of its current projects, the Company has financial resources that are sufficient to secure its operation during the next year. With regard to the distribution of the available funds allocated for project implementation, BREF will focus its operations mainly on the management of the new building, performance of repairs and refurbishment of the existing buildings in use and the search for new investment projects.

## 3.3 Capital resources

At the end of December 2016 the long-term capital of the Company, both equity and borrowed, recorded an increase of 17.31% to EUR 40,303 thousand. The change was a result both of the utilised funds under the bank loan extended to the Company and to the realised financial result at the end of the year. The structure of the long-term capital is also undergoing a change, provided that unlike the end of the prior year, when no borrowed capital was recorded, the borrowed capital recorded during this year is EUR 4,559 and its share of the total capital resource is 11.3%. During the next reporting period, with the achievement of new financial results and the start of the repayment of the principal under the utilised bank loan, the share of equity is expected to start to increase on account of the borrowed one.

The distribution between equity and borrowed funds is presented in the figures below.

**Figure 2: Allocation between equity and external financing**



**Table 6 –Leverage ratios**

Leverage ratios	31.12.2016	31.12.2015
Debt-to-Equity	0.13	-
Non-Current Assets-to-Equity ratio	0.99	1.00
Long-term-Debt-to-Non-Current-Asset ratio	0.13	-

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

## ■ Equity

At the end of 2016 the equity of BREF is EUR 35,744 thousand, which represents an increase of 4.04% as compared to 2015. The recorded increase is a result of the accounted and undistributed profit for the period, following from the good rental income and the assessed positive net revaluations of the assets of the Fund.

**Table 7 – Total equity as of 31<sup>st</sup> December 2016 and 31<sup>st</sup> December 2015.**

Equity (in thousands)	31.12.2016	31.12.2015
Share capital	30,907	30,907
Share premium	3,245	3,245
Retained earnings/(accumulated losses)	1,592	205
<b>Total equity</b>	<b>35,744</b>	<b>34,357</b>

## ■ External financing

In 2016 the Company signed a new bank loan agreement with Eurobank Bulgaria AD. The new loan is for 10 years and in the amount of up to BGN 11 million. The purpose of the loan is to finance the construction of the new office building of the Fund situated at the ring road. The interest due under the loan is the 3-month Sofibor +3.1%. The grace period for the principal is until the end of 2016. The loan is secured with a contractual mortgage of the new office building and of two commercial outlets, with a total fair value as at 31 December 2016 of EUR 21,200 thousand, a pledge of current and future receivables under the operative lease agreements for the building and a pledge of all current and future receivables under received bank guarantees issued to the Fund by the lessee of the commercial outlets. The utilisation of the funds was accomplished in tranches, in compliance with the construction costs, and the total amount utilised by the end of the reporting period was BGN 10 million.

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

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

The investment programme of the Company in 2017 will be mainly focused on the completion of certain finishing works of the new office building at the Sofia Ring Road. Apart from this project, capital expenses are provided for Building 1 in Business Park Sofia, where replacement of the roof waterproofing of the whole building and renovation of the lobby are planned.

The Company is constantly looking for new investment projects and will, if the opportunity arises, allocate funds for that.

### 3.4 Asset structure

The amount of the BREF assets by end-December 2016 increased by 16.84% to EUR 43,377 thousand, as compared to the end of 2015, when the amount of the assets was EUR 37,124 thousand. The registered increase was mainly as a result of the funds utilised under the new bank loan extended to the Company, the realised positive net revaluations of properties and the advance payments received under the executed preliminary agreements for the sale of the properties in Mladost 4 district, Sofia. During the next reporting period, with the generation of additional income from rent, we expect that the increasing of the assets of the Fund will continue.

*Table 6 – Asset structure*

Asset structure (thousand EUR)	31.12.2016	% share	31.12.2015	% share
<b>Non-current assets incl.</b>	<b>35,263</b>	<b>81.3%</b>	<b>34,431</b>	<b>92.7%</b>
- total property	35,261	81.3%	34,070	91.8%
<b>Current assets incl.</b>	<b>8,114</b>	<b>18.7%</b>	<b>2,693</b>	<b>7.3%</b>
- trade receivable	72	0.2%	110	0.3%
- investment property held for sale	4,128	9.5%	778	2.1%
- cash and cash equivalents	3,903	9.0%	1,795	4.8%
<b>Total assets</b>	<b>43,377</b>	<b>100%</b>	<b>37,124</b>	<b>100%</b>

A major change was observed in the asset structure in 2016. As a result of the executed preliminary agreements for the sale of part of the properties in Mladost 4, Sofia, with the transfer from the long-term into the short-term assets and the utilisation of the new funds under the loan extended to the Company, the share of the short-term assets marked a significant increase, reaching 18.7% at year-end. On the other hand, with the issuance of the permission for use of the new building the expenses on acquisition of FTA were transferred to the value of the building and the internal structure of FTA also changed. During the next year, along with the accumulation of income from rent, it is contemplated that the process of increase of the short-term assets will continue, provided that change in their internal structure will occur after completion of the sale of the two properties in Mladost 4, leading to increase of cash. A change is likely to occur if the Company starts new projects.

### 3.5 Financial Results

The activity of BREF in 2016 was mainly focused on the current management of the projects generating revenues for the Company and the construction of the new building on the Ring Road in Sofia.

#### ■ Revenue from operations

Over the year the income of the Company increased significantly to EUR 4,577 thousand, which was an increase of 83.5% as compared to the prior year. The major reason for this result was the generated income from the sale of properties, the higher rental income and the assessed higher positive net revaluations of properties at the end of the year.



**Table 9 – Realized revenues in 2016 and 2015.**

Revenue (in thousand EUR)	2016	% share	2015	% share
Rental and service charge income	2,141	46.8%	2,037	81.7%
Income from sale of investment property	1,061	23.2%	132	5.3%
Interest income	4	0.1%	6	0.2%
Gain on derivative financial instrument	23	0.5%	58	2.3%
Net gains from fair value adjustments	1,259	27.5%	249	10.0%
Other Income	89	1.9%	11	0.4%
<b>Total revenue</b>	<b>4,577</b>	<b>100%</b>	<b>2,493</b>	<b>100%</b>

The overall structure of the income thus changed, with an increased share of the income from the sale of properties and the income of positive revaluations. Despite these changes in 2016, the income taking up the highest share of 46.8% remained the one from real property rentals. Their growth by 5.1% was a result of the commissioning of the new office building of the Company and the generation of additional income from it. In 2017, when the main rented areas in the Kambanite Office Building will be handed over to their tenants, this will be associated with major increase of the rental income. According to the current rental agreements in place, the expected income from the new building in this year is EUR 916 thousand.

The income from the sale of property also increased significantly, provided that the increase was a result of the income from the sale of part of the properties in the Veliko Tarnovo area, the sale of a property in the Sequoia 2 residential building in Borovets resort and the sale of one of the zoned land plots in Mladost 4 district, Sofia. During the next year the sale of both properties in Mladost 4 district, Sofia, for which preliminary agreements were executed in the last year, is expected to be completed. The expected total amount of the sale under the transactions is EUR 3,368 thousand.

A major change was also observed in the net income from revaluation of properties. The major contribution was that of the revaluations of the new Kambanite Office Building at the Sofia ring road and the revaluation of Building 1 in Business Park Sofia. Major changes in the value of the properties held by the Fund are not expected during the next reporting period.

The Other income item for this year contains income related to the agricultural land, recognized by the Company, written off as expenses during the prior year. This was a result of the renewal of part of the lawsuits contesting the acquisition of the specific properties and reaching a favourable court decree not subject to appeal.

Income from change in the value of the realized swap under the loan for the financing of the purchase of the Mr. Bricolage stores was recorded for the last time during the year under review. After the repayment of the loan in the end of 2016 the swap was also repaid and it will not be present anymore in the financial statements of the company.

Furthermore, due to the reduced amount of the available cash during the year, the income from interest also dropped. During the current year, with the accumulation of funds under the utilised loan and the income from the sale of properties, the income from interest under bank deposits is expected to rise.

During the next year it is expected that the income of the Fund will increase as a result of the increased income from rent and the completion of the two transactions for the sale of the properties in Mladost 4 districts, Sofia.

#### ■ Expenses from operations

Apart from the income, the expenses of the Company also increased, growing by 65.6% in the last year. The main reason for this was the written off values of the properties sold in the course of the year, which had the largest share of the expenses for the prior year, and this significantly changed the overall structure.

**Table 10 – Realized expenses 2016 and 2015.**

Expenses (in thousand EUR)	2016	% share	2015	% share
Value of sold property	(1,159)	47.7%	(167)	11.4%
Interest expense	(104)	4.3%	(103)	7.0%
Management fees	(523)	21.5%	(519)	35.4%
Direct operating expenses arising from properties	(494)	20.3%	(488)	33.3%
BOD remunerations	(56)	2.3%	(58)	3.9%
Employee benefit costs	(29)	1.2%	(28)	1.9%
Other expenses	(65)	2.7%	(103)	7.0%
<b>Total expenses</b>	<b>(2,430)</b>	<b>100%</b>	<b>(1,466)</b>	<b>100%</b>

The biggest supplier of the Company during the prior year was the managing company with 21.5% of the expenses, or EUR 523 thousand, which ranks it second within the structure of the expenses. The expenses on the fee of the managing company kept the level from the prior year, which is expected as a tendency in the reviewed periods to come, provided that certain fluctuations are likely to occur as a result of the changes in the net assets of the Company.

The amount of the direct property-related operating expenses remained significant, being as much as 20.3% of the total expenses. Their increase was mainly related to the increased expenses following the commissioning of the new office building of the Company, provided that this will lead to additional increase in the following year too. The main expenses registered under this item are the expenses on property maintenance and management and the local taxes and charges costs.

In 2016 the Expenses on interests kept their value, which was a result of the new loan extended to the Company and the accrued interest payments thereunder. The previous loan for the Mr. Bricolage stores was repaid by the end of the prior year and no interest will be due under it. The principal of the new loan however is higher and the interest payments are expected to be higher. This in turn will result in increased expenses on interest in the next year, which will gradually decrease with the decrease of the principal over the years.

During the last year the Other expenses item dropped by 37.6%, which was a result of the absence of additional provisions for agricultural land and court proceedings, which were recorded in 2015. The other expenses registered under this item in 2016 were mainly expenses related to the administrative management of the Fund.

In the year to come the total amount of the expenses is expected to grow, as a result of the writing off of the book values of the sold properties in Mladost 4 district, Sofia.

## ■ Financial result

**Table 11 – Financial result for 2016 and 2015.**

Financial Result	2016	2015
Revenues	4,577	2,493
Expences	(2,430)	(1,466)
<b>Net profit/loss for the period</b>	<b>2,147</b>	<b>1,027</b>

The BREF profit in the last year was EUR 2,147 thousand. The underlying reason for this was the higher income from rents and bigger positive net revaluations of properties recorded in the statements of the Company. During the next reporting period, in the absence of positive revaluations, the accounting profit is expected to drop, provided that an additional negative result for the net profit for distribution will be the loss calculated in compliance with the requirements of the Special Purpose Vehicle Act (SPOA), which will be registered after the sale of the two properties in Mladost 4 district, Sofia.

In proportion to the adjusted average number of shares (which the General meeting of the shareholders held in February 2016 reduced to 20,150) the book profit lead to earning per share (EPS) in the amount of EUR 0.107. The projected profit for distributable dividend in 2016, determined in accordance with the requirements of article 10, paragraph 3, of the Special Purpose Vehicles Act, is EUR 760 thousand, which leads to a gross dividend per share of EUR 0.038 (based on the changed number of shares).

Results per share (EUR '000)	2016	2015
Earnings	2,147	1,027
Earnings per share (EPS)	0.107	0.051
Net asset value (NAV)	35,744	34,357
Adjusted common shares outstanding	20,150	20,150
NAV per share	1.774	1.705
Dividend per share	0.0377	0.0408
Fair value per share	1.812	1.746

The net asset value per share (NAV) during the past reporting period increased from EUR 1.705 per share to EUR 1.774 per share, which constitutes an annual increase of 4.0%. The registered increase in the net value per share results mainly from the reported profit for the period.

### ■ **Potential risks**

The main risks which reflect and will continue to reflect on the activity of BREF are thoroughly described in the Registration document of the Fund (Part II of the IPO document), approved by the Financial Supervision Commission of Bulgaria in March 2005. Since then the following changes in the associated risks occurred:

#### ***Market Risk***

The properties owned by BREF are subject to market risk associated with the unclear future of the real estate market in Bulgaria. This could lead to realizing a lower sale price on the properties in the portfolio as well as low liquidity of the assets set for disposition. The management of BREF considers that the 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 December 2016, considering the investment bank loan of the Fund, it is exposed to interest rate risk regarding possible changes in the interest rate levels. The Fund is constantly monitoring the changes in the level of SOFIBOR and if needed is ready to renegotiate the financing parameters.

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

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

#### ***Liquidity risk***

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

***Construction risk***

After receiving the permission for use of the new Office Building Kambanite in Sofia the exposure to the construction risk has diminished and an influence on the activities of the Fund is not expected until the start of new development project.

***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. The expectations of the Company are that the Kambanite Office Building will be issued the LEED Gold Certificate, which indicates significant reduction of water, electricity and gas consumption of the building.

## **4 Events after the reporting date**

There is no significant event that occurred after the reporting date, which may affect the price of the shares of BREF.

## 5 Share performance

The shares of the Bulgarian Real Estate Fund had a very good performance in 2016 and their price increased by 45.60% in comparison with the prior year end. The achieved growth 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. During the last year the index grew by 11.42% reaching 108.11 points, which was a six 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.

Generally, the capital market demonstrated a very good performance in 2016, the main index SOFIX rising by 27.24%, reaching 586.43 points, which made it one of the best performing indexes in Central and Eastern Europe. The broad index BGBX 40 added 19.91% to its value and at the end of 2016 reached a level of 111.3 points. The liveliness on the Bulgarian Stock Exchange Sofia was reflected in the realized turnover on the regulated market, which grew by 1.27% during the last year.

The major risk factors that the Bulgarian economy and in particular the public companies on the capital market face are related to the political situation in the country and the potential delay in the economic growth in the European Union - the major Bulgarian trade partner. Some risks are also in place with the insufficient short-term and long-term foreign investments in the country and on the Bulgarian Stock Exchange – Sofia.

Summarized trading details for the 52 week period – 1<sup>st</sup> January 2016 – 31<sup>st</sup> December 2016:

- Opening Price – BGN 1.530 (4 January 2016)
- Closing Price – BGN 2.267 (30 December 2016)
- Highest Price – BGN 2.280 (9 December 2016)
- Lowest Price – BGN 1.521 (05 January 2016)
- Total Trading Volume – 2,964,545 shares
- Turnover for the period – BGN 5,829,662 (EUR 2,980,659)
- Weighted average price – BGN 1.966
- Market Capitalisation (31.12.2016) – BGN 45,680,050 (EUR 23,355,839)

**BREF Share Price Performance  
(01.01.2016 - 31.12.2016)**

