# HB Reavis Holding S.A.

# Consolidated Financial Statements
31 December 2018

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AUDITOR'S REPORT

CONSOLIDATED FINANCIAL STATEMENTS AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2018


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**Audit report**

To the Shareholders of
**HB Reavis Holding S.A.**

## Report on the audit of the consolidated financial statements

### Our opinion

In our opinion, the accompanying consolidated financial statements give a true and fair view of the consolidated financial position of HB Reavis Holding S.A. (the "Company") and its subsidiaries (the "Group") as at 31 December 2018, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union.

*What we have audited*

The Group's consolidated financial statements comprise:

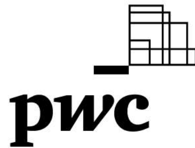
- the consolidated statement of financial position as at 31 December 2018;
- the consolidated statement of profit or loss and other comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

### Basis for opinion

We conducted our audit in accordance with the Law of 23 July 2016 on the audit profession (Law of 23 July 2016) and with International Standards on Auditing (ISAs) as adopted for Luxembourg by the "Commission de Surveillance du Secteur Financier" (CSSF). Our responsibilities under the Law of 23 July 2016 and ISAs as adopted for Luxembourg by the CSSF are further described in the "Responsibilities of the "Réviseur d'entreprises agréé" for the audit of the consolidated financial statements" section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) as adopted for Luxembourg by the CSSF together with the ethical requirements that are relevant to our audit of the consolidated financial statements. We have fulfilled our other ethical responsibilities under those ethical requirements.



## Other information

The Board of Directors is responsible for the other information. The other information comprises the information stated in the Management report but does not include the consolidated financial statements and our audit report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

## Responsibilities of the Board of Directors for the consolidated financial statements

The Board of Directors is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRSs as adopted by the European Union, and for such internal control as the Board of Directors determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Board of Directors is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Directors either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

## Responsibilities of the "Réviseur d'entreprises agréé" for the audit of the consolidated financial statements

The objectives of our audit are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an audit report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Law of 23 July 2016 and with ISAs as adopted for Luxembourg by the CSSF will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with the Law of 23 July 2016 and with ISAs as adopted for Luxembourg by the CSSF, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;

- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control;

- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors;

- conclude on the appropriateness of the Board of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our audit report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our audit report. However, future events or conditions may cause the Group to cease to continue as a going concern;

- evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation;

- obtain sufficient appropriate audit evidence regarding the financial information of the entities and business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

## Report on other legal and regulatory requirements

The Management report is consistent with the consolidated financial statements and has been prepared in accordance with applicable legal requirements.

PricewaterhouseCoopers, Société coopérative
Represented by

Luxembourg, 10 April 2019

Isabelle Dauvergne

| *In millions of EUR* | Note | 31 December 2018 | 31 December 2017 |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Investment property in use or vacant | 9 | 622.8 | 545.6 |
| Investment property under development | 9 | 1,043.6 | 861.8 |
| Investment in joint ventures | 10 | 54.5 | 56.2 |
| Property, plant and equipment | 8 | 9.3 | 9.5 |
| Intangible assets | | 0.9 | 0.7 |
| Financial investments | 16 | 51.8 | 1.1 |
| Receivables and loans | 7, 11 | 9.2 | 11.7 |
| Deferred income tax asset | 26 | 11.8 | 16.9 |
| Other non-current assets | 12 | 9.4 | 11.5 |
| **Total non-current assets** | | **1,813.3** | **1,515.0** |
| **Current assets** | | | |
| Non-current assets classified as held for sale | 14 | **271.2** | **386.5** |
| Inventories | | 0.4 | 0.6 |
| Trade and other receivables | 7, 13 | 72.4 | 117.1 |
| Other assets | | 20.3 | 14.2 |
| Cash and cash equivalents | 15 | 172.3 | 261.4 |
| | | **265.4** | **393.3** |
| **Total current assets** | | **536.6** | **779.8** |
| **TOTAL ASSETS** | | **2,349.9** | **2,294.8** |
| **EQUITY** | | | |
| Share capital *(30,000 shares at EUR 1.00 each)* | 17 | - | - |
| Share premium | 17 | 455.9 | 494.0 |
| Retained earnings | | 831.8 | 711.7 |
| Revaluation reserve for assets transferred to investment properties at fair value | 8 | 3.8 | 3.8 |
| Currency translation reserve | 2.3 | (33.4) | (15.4) |
| Equity attributable to the Company's owners | | 1,258.1 | 1,194.1 |
| Non-controlling interest | | - | 1.6 |
| **TOTAL EQUITY** | | **1,258.1** | **1,195.7** |
| **LIABILITIES** | | | |
| **Non-current liabilities** | | | |
| Borrowings | 18 | 614.4 | 598.9 |
| Deferred income tax liability | 26 | 79.3 | 69.9 |
| Trade and other payables | 7, 19 | 15.2 | 10.3 |
| **Total non-current liabilities** | | **708.9** | **679.1** |
| **Current liabilities** | | | |
| Liabilities directly associated with non-current assets classified as held for sale | 14 | **158.8** | **239.0** |
| Borrowings | 18 | 133.2 | 82.1 |
| Trade and other payables | 7, 19 | 85.9 | 91.1 |
| Deferred income | 19 | 5.0 | 7.8 |
| | | **224.1** | **181.0** |
| **Total current liabilities** | | **382.9** | **420.0** |
| **TOTAL LIABILITIES** | | **1,091.8** | **1,099.1** |
| **TOTAL LIABILITIES AND EQUITY** | | **2,349.9** | **2,294.8** |

These consolidated financial statements have been approved for issue and signed on behalf of the HB Reavis Holding S.A. on 29 March 2019 by the members of the Board of Directors of HB Reavis Holding S.A. Shareholders have the power to amend these consolidated financial statements after issue.

| Melanie Frauenkron<br>Director A | Daan den Boer<br>Director A | Isabel Schellenberg<br>Director A | Marián Herman<br>Director B |
|---|---|---|---|

| *In millions of EUR* | Note | 2018 | 2017 |
|---|---|---|---|
| Rental and similar income from investment property | 20 | 62.1 | 60.6 |
| Direct operating expenses arising from investment property | 21 | (24.1) | (21.9) |
| **Net operating income from investment property** | | **38.0** | **38.7** |
| Revaluation gain/(loss) on investment property | 9 | 194.8 | 95.2 |
| Share of profit or loss of joint ventures | 10 | 10.0 | 7.1 |
| Gain on disposal of subsidiaries | 25 | 21.8 | 25.8 |
| Other operating income | 24 | 7.2 | 9.1 |
| Revenue from construction contracts | 7, 22 | 21.9 | 85.5 |
| Construction services | | (22.3) | (78.7) |
| Employee benefits | 23 | (25.7) | (27.8) |
| Depreciation and amortisation | 8 | (2.5) | (1.8) |
| Other operating expenses | 24 | (45.3) | (55.0) |
| **Operating profit** | | **197.9** | **98.1** |
| Interest income | 7 | 1.2 | - |
| Interest expense | | (33.2) | (24.4) |
| Foreign exchange gains/(losses), net | 27 | (8.5) | 14.6 |
| Gains less losses on financial derivatives | | (3.7) | 8.3 |
| Other finance income | | 0.3 | - |
| Other finance costs | | (2.4) | (2.8) |
| **Finance costs, net** | | **(46.3)** | **(4.3)** |
| **Profit before income tax** | | **151.6** | **93.8** |
| Current income tax credit/(expense) | 26 | (2.0) | 3.5 |
| Deferred income tax expense | 26 | (29.5) | (14.1) |
| **Income tax credit/(expense)** | | **(31.5)** | **(10.6)** |
| **Net profit for the year** | | **120.1** | **83.2** |
| **Other comprehensive income/(loss)** | | | |
| *Items that may be reclassified subsequently to profit or loss:* | | | |
| Translation of foreign operations to the presentation currency for the year | | (10.6) | 13.7 |
| Translation of foreign operations reclassified to profit or loss upon loss of control of subsidiary or repayment of subsidiaries' capital | 25 | (7.4) | (0.4) |
| Total other comprehensive income/(loss) | | (18.0) | 13.3 |
| **Total comprehensive income for the year** | | **102.1** | **96.5** |
| **Net profit is attributable to:** | | | |
| - Owners of the Company | | 120.1 | 83.2 |
| **Profit for the year** | | **120.1** | **83.2** |
| **Total comprehensive income is attributable to:** | | | |
| - Owners of the Company | | 102.1 | 96.5 |
| **Total comprehensive income for the year** | | **102.1** | **96.5** |

| | | Attributable to owners of the Company | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| *In millions of EUR* | **Note** | **Share capital (Note 17)** | **Share premium (Note 17)** | **Retained earnings** | **Transla-tion reserve** | **Revalua-tion reserve** | **Total** | **Non-controlling Interest** | **Total equity** |
| **Balance at 1 January 2017** | | **-** | **532.6** | **628.5** | **(28.7)** | **3.8** | **1,136.2** | **0.5** | **1,136.7** |
| Profit for the year | | - | - | 83.2 | - | - | **83.2** | - | **83.2** |
| Other comprehensive income | | - | - | - | 13.3 | - | **13.3** | - | **13.3** |
| **Total comprehensive income for 2017** | | **-** | **-** | **83.2** | **13.3** | - | **96.5** | **-** | **96.5** |
| Distribution to owners | 17 | - | (38.6) | - | - | - | **(38.6)** | - | **(38.6)** |
| Other | | - | - | - | - | - | **-** | 1.1 | **1.1** |
| **Balance at 31 December 2017** | | **-** | **494.0** | **711.7** | **(15.4)** | **3.8** | **1,194.1** | **1.6** | **1,195.7** |
| Profit for the year | | **-** | **-** | **120.1** | **-** | **-** | **120.1** | **-** | **120.1** |
| Other comprehensive loss | | **-** | **-** | **-** | **(18.0)** | **-** | **(18.0)** | **-** | **(18.0)** |
| **Total comprehensive income / (loss) for 2018** | | **-** | **-** | **120.1** | **(18.0)** | **-** | **102.1** | **-** | **102.1** |
| Distribution to owners | 17 | **-** | **(38.1)** | **-** | **-** | **-** | **(38.1)** | **-** | **(38.1)** |
| Other | | **-** | **-** | **-** | **-** | **-** | **-** | **(1.6)** | **(1.6)** |
| **Balance at 31 December 2018** | | **-** | **455.9** | **831.8** | **(33.4)** | **3.8** | **1,258.1** | **-** | **1,258.1** |

| *In millions of EUR* | Note | 2018 | 2017 |
|---|---|---|---|
| ***Cash flows from operating activities*** | | | |
| Profit before income tax | | 151.6 | 93.8 |
| *Adjustments for:* | | | |
| Depreciation and amortisation | 8 | 2.5 | 1.8 |
| Revaluation gains on investment property | 9 | (194.8) | (95.2) |
| Gains less losses on disposals of subsidiaries | 25 | (21.8) | (25.8) |
| Share of profit or loss of joint ventures | | (10.0) | (7.1) |
| Interest income | | (1.2) | - |
| Interest expense | | 33.2 | 24.4 |
| Unrealised foreign exchange (gains)/losses | 27 | 8.3 | (16.5) |
| Unrealised (gains)/losses from financial derivatives | | 5.9 | (2.6) |
| Operating cash flows before working capital changes | | (26.3) | (27.2) |
| *Working capital changes:* | | | |
| Decrease/(increase) in trade and other receivables | | 18.1 | 169.8 |
| Increase/(decrease) in trade and other payables | | (2.5) | 5.6 |
| Cash generated from/(used in) operations | | (10.7) | 148.2 |
| Interest paid | 18 | (31.9) | (16.9) |
| Income taxes paid | | (1.8) | (0.7) |
| **Net cash from/(used in) operating activities** | | **(44.4)** | **130.6** |
| ***Cash flows from investing activities*** | | | |
| Purchases of property, plant and equipment and intangible assets | 8 | (3.3) | (2.8) |
| Purchases of investment properties | | (127.1) | (300.4) |
| Investment in joint venture | | - | (2.6) |
| Loans repaid by related parties | 7 | 23.3 | - |
| Loans provided to related parties | 11 | - | (36.3) |
| Construction costs related to investment properties | | (223.4) | (137.1) |
| Proceeds from sales of subsidiaries, net of cash disposed of | 25 | 169.7 | 23.4 |
| Proceeds from disposal of own use premises and equipment | 8 | 1.2 | - |
| Loss from loss of control over subsidiary, net of cash disposed of | 25 | - | (27.0) |
| Acquisition of financial investments | 16 | (49.8) | - |
| Dividends received from joint ventures | 7 | 10.1 | - |
| Proceeds from sale of financial investments | 25 | - | 17.4 |
| Restricted cash | | (0.6) | 1.0 |
| **Net cash from / (used in) investing activities** | | **(199.9)** | **(464.4)** |
| ***Cash flows from financing activities*** | | | |
| Proceeds from borrowings | 18 | 294.4 | 541.2 |
| Repayment of borrowings | 18 | (109.1) | (213.9) |
| Distributions paid to owners | 17 | (46.9) | (29.8) |
| **Net cash from/(used in) financing activities** | | **138.4** | **297.5** |
| **Net (decrease) / increase in cash and cash equivalents** | | **(105.9)** | **(36.3)** |
| Cash and cash equivalents at the beginning of the year | | 276.9 | 313.2 |
| **Cash and cash equivalents at the end of the year** | | **171.0** | **276.9** |
| *Reconciliation of cash and cash equivalents:* | | | |
| - Restricted cash | 15 | 2.8 | 2.2 |
| - Cash within non-current assets classified as held for sale | 14 | (1.5) | (17.7) |
| **Cash and cash equivalents at the end of the year presented in the statement of financial position** | 15 | **172.3** | **261.4** |

## 1 The HB REAVIS Group and its Operations

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union (the "EU") for the year ended 31 December 2018 for HB Reavis Holding S.A. (the "Company") and its subsidiaries (together referred to as the "Group" or "HB REAVIS Group").

The Company was incorporated and is domiciled in Luxembourg. The Company is a public limited liability company (société anonyme) (until 4 September 2018 limited liability company) and was set up in accordance with the Luxembourg regulations on 20 October 2010. The Company is registered at the Luxembourg Commercial Register under file R.C.S. Luxembourg no. B 156.287.

HB Reavis Holding S.A. is ultimately controlled by Mr. Ivan Chrenko. The Group's immediate parent as of the date of issuance of these consolidated financial statements is Kennesville Holdings Ltd based in Cyprus.

***Principal activity***. The HB REAVIS Group is a real estate group with major portfolio of investment properties in Slovakia, Poland, Hungary, Germany, United Kingdom and the Czech Republic. It is principally involved in the development of properties for its own portfolio, in leasing out investment properties under operating leases, as well as in asset management and is also active in investment management. The Group develops and manages investment properties to earn rental income or for capital appreciation.

In 2017 the Group made its largest acquisition in HB Reavis history with acquisition of One Waterloo in London, in prominent South Bank location next to the Waterloo station. The project counts with a permit enabling development of almost 120k sqm of office scheme for the projected Gross Development Value of EUR 1.7 billion. Our aim is to optimize current permit and apply for re-permitting with anticipated start of construction of the new scheme in 2020 and delivery of the project in 2024. The Group has also acquired additional land plot in 2018, in London, UK, aiming to develop a project called Bloom over the course of 2019-2020 with expected Gross Development Value of EUR 255 million.

With respect to Group's expansion to Germany, two acquisition opportunities have been secured in 2018. In Berlin, Prenzlauer Hoefe is under construction since 12/2018, with expected delivery in 2021; Gross Development Value shall reach about EUR 310 million. A land plot in Dresden, Germany, has been added into the portfolio in 07/2018, the scheme design is under preparation.

Two projects have been completed in London, UK, and one in Bratislava, Slovakia, in 2018: Cooper & Southwark and 20 Farringdon in London have been delivered in 2Q/2018, while Twin City Tower in Bratislava was opened in 10/2018.

As of the date of preparation of these consolidated financial statements, construction of Bloom, London, UK, Burakowska and Varso project, both in Warsaw, Poland, Prenzlauer Hoefe, Berlin, Germany, Nivy Tower & Stanica Nivy in Bratislava, Slovakia and Agora project in Budapest, Hungary is ongoing.

The Group divested from three projects over the course of 2018; Metronom in Prague, Czech Republic, Cooper & Southwark in London, UK and Gdanski Business Center C&D in Warsaw, Poland.

***HB Reavis Real Estate Fund structure.*** HB Reavis Real Estate Investment Fund (until 27 April 2017 HB Reavis Real Estate SICAV – SIF) (the "Fund") is an umbrella fund incorporated as a corporate partnership limited by shares (société en commandite par actions or S.C.A.) under the laws of Luxembourg, which is registered as an investment company with fixed capital (société d'investissement à capital fixe) within the meaning of article 461-4 of the law on commercial companies of 10 August 1915, as amended (the 1915 Law) and registered as an undertaking for collective investment governed by Part II (UCI Part II) of the 2010 UCI Law, governed by the present articles of association and by current Luxembourg laws. The Fund was initially set up on 25 May 2011 and was registered as an investment company with variable capital until 27 April 2017. The Fund is registered at the Luxembourg Commercial Register under file R.C.S. Luxembourg B 161.180. Furthermore, the Fund is in the scope of the Alternative Investment Fund Management Law of 12 July 2013 ("AIFM Law") and qualifies as an Alternative Investment Fund ("AIF").

The Fund launched its first Sub-Fund named HB Reavis CE REIF (hereafter "Sub-Fund A" or "CE REIF") in 2011. A second Sub-Fund named HB Reavis Global REIF (hereafter "Sub-Fund B" or "Global REIF") was launched on 15 September 2015. The Fund is managed for the account of and in the exclusive interest of its shareholders by its general partner HB Reavis Investment Management S.à r.l. (the "Management Company"), a limited liability company organised under the laws of Luxembourg (registration number B 161.176) having its registered office at 20, rue de la Poste, L-2346 Luxembourg and by its AIFM Crestbridge Management Company S.A., a licensed with the Luxembourg financial regulator the CSSF.

***CE REIF Sub-Fund.*** While there is no specific country or real estate segment restrictions posed, the CE REIF Sub-Fund aims to mainly invest in the Central European region as Slovakia, the Czech Republic, Poland and Hungary in commercial real estate assets. The initial CE REIF Sub-Fund's portfolio included investments in prime properties only located in Slovakia. The office segment investments are restricted to A-class properties located in central business districts of capital cities in Slovakia, the Czech Republic and Hungary. In Poland however, both, capital and regional cities are eligible for investments in the office segment. The retail segment investments are aimed to be made in both capital and regional cities in the entire Central European region. Investments in logistic properties are restricted to attractive and strategic locations only. CE REIF Sub-Fund seeks to maximize the value via investing in properties, which in the past proved to bear characteristics of a prime-commercial real estate property, which as such implies to have a top-tier tenants portfolio being located in prime or strategic locations and soundly built from both technical and architectonical point of view. CE REIF Sub-Fund seeks to enhance value of properties by contracting an excellent lease management in order to maximize property income. The Group lost control of the Sub-Fund A in 2017 (Note 25).

## 1 The HB REAVIS Group and its Operations (Continued)

***Global REIF Sub-Fund.*** While there are no specific country or real estate segment restrictions posed, Global REIF Sub-Fund aims to mainly invest in commercial real estate assets located in the EU countries and Turkey. The initial Global REIF Sub-Fund's portfolio included investment properties in prime properties only located in Slovakia. The office segment investments are focused mainly on properties located in business districts of capital and regional cities in the EU countries and Turkey, but without any specific location restriction. The retail segment investments are aimed to be made in both capital and regional cities of EU countries and Turkey.

Investments in logistic properties are restricted to attractive and strategic locations in EU countries and Turkey. In case of "core" investments, Global REIF Sub-Fund seeks to maximize the value via investing in properties, which in the past proved to bear characteristics of a prime-commercial real estate property which as such implies to have a top-tier tenants portfolio being located in prime or strategic locations and soundly built from both technical and architectonical point of view. Global REIF Sub-Fund seeks to enhance value of properties by contracting an excellent lease management in order to maximize property income.

The Group is also involved in construction of real estate for third parties, including related parties.

The Group's strategy is reflected in its cash flow forecast that is regularly monitored by the Board of Directors, including their assessment of appropriateness of preparation of the financial statements on a going concern basis. The cash flow outlook is further described under the description of management of liquidity in Note 29. Valuation of properties of the Group in the less liquid markets necessarily involves an element of judgement. The critical accounting judgments used in valuation of the Group's investment properties are described in Note 3.

***Registered address and place of business.*** The Company's registered address and principal place of business is:

6, rue Jean Monnet
L-2180 Luxembourg
Luxembourg

As at 31 December 2018 the Group had offices in Luxembourg, Amsterdam, Bratislava, Warsaw, Prague, Budapest, London, and Berlin.

## 2 Significant Accounting Policies

The principal accounting policies applied in the preparation of these consolidated financial statements are described below. Apart from the accounting policy changes resulting from the adoption of IFRS 9 and IFRS 15 effective from 1 January 2018, these policies have been consistently applied to all the periods presented. The effect of adoption of the new standards was not material as explained in Note 4 and hence, management decided not to repeat the full text of the accounting policies that were applied until 31 December 2017.

### 2.1 Basis of Preparation

***Statement of compliance.*** These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union ("IFRS as adopted by the EU"). The Group applies all IFRS standards and interpretations issued by International Accounting Standards Board (hereinafter "IASB") as adopted by the European Union, which were in force as of 31 December 2018.

***Income and cash flow statements.*** The Group has elected to present a single 'statement of profit or loss and other comprehensive income' and presents its expenses by nature. The Group reports cash flows from operating activities using the indirect method. Interest received and interest paid are presented within operating cash flows. The acquisitions of investment properties are disclosed as cash flows from investing activities because this most appropriately reflects the Group's business activities.

***Preparation of the consolidated financial statements.*** These consolidated financial statements are presented in millions of Euro ("EUR") rounded to one decimal place, unless otherwise stated.

The consolidated financial statements have been prepared on a going concern basis, applying the historical cost convention, except for the measurement of investment properties (including those held for sale), financial investment, financial assets (eg earn-out receivables) and derivatives at fair value.

The preparation of these consolidated financial statements in conformity with IFRS as adopted by the EU requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. Changes in assumptions may have a significant impact on the consolidated financial statements in the period the assumptions changed. Management believes that the underlying assumptions are appropriate. The areas involving higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 3. Valuation techniques such as discounted cash flows models or models based on recent arm's length transactions or consideration of financial data of the counterparties are used to fair value certain financial instruments or investment properties for which external market pricing information is not available. Valuation techniques may require assumptions not supported by observable market data. Refer to Note 31.

## 2 Significant Accounting Policies (Continued)

### 2.2 Consolidated Financial Statements

***Consolidated financial statements.*** In preparing the consolidated financial statements, the individual financial statements of the consolidated entities are aggregated on a line-by-line basis by adding together the like items of assets, liabilities, equity, income and expenses. Transactions, balances, income and expenses between the consolidated entities are eliminated.

***Subsidiaries.*** Subsidiaries are those investees, including structured entities, that the Group controls because the Group (i) has power to direct relevant activities of the investees that significantly affect their returns, (ii) has exposure, or rights, to variable returns from its involvement with the investees, and (iii) has the ability to use its power over the investees to affect the amount of investor's returns. The existence and effect of substantive rights, including substantive potential voting rights, are considered when assessing whether the Group has power over another entity. For a right to be substantive, the holder must have practical ability to exercise that right when decisions about the direction of the relevant activities of the investee need to be made. The Group may have power over an investee even when it holds less than majority of voting power in an investee. In such a case, the Group assesses the size of its voting rights relative to the size and dispersion of holdings of the other vote holders to determine if it has de-facto power over the investee. Protective rights of other investors, such as those that relate to fundamental changes of investee's activities or apply only in exceptional circumstances, do not prevent the Group from controlling an investee. Subsidiaries are consolidated from the date on which control is transferred to the Group, and are deconsolidated from the date on which control ceases.
The entities included within these consolidated financial statements are as follows:

| | | | | Percentage ownership interest and voting rights held | |
|---|---|---|---|---|---|
| **Number** | **Subsidiaries** | **Functional currency** | **Country of incorporation** | **31 December 2018** | **31 December 2017** |
| 1 | HB Reavis Holding S.à r.l. *(Parent Company)* | EUR | Luxembourg | N/A | N/A |
| 2 | EIGHT House S.à r.l. [2] | GBP | Luxembourg | - | 100 |
| 3 | Evolution Building Technologies S.à r.l. | EUR | Luxembourg | 100 | 100 |
| 4 | GBC A S.à r.l. | EUR | Luxembourg | 100 | 100 |
| 5 | GBC B S.à r.l. | EUR | Luxembourg | 100 | 100 |
| 6 | GBC C S.à r.l. [4] | EUR | Luxembourg | - | 100 |
| 7 | GBC D S.à r.l. [4] | EUR | Luxembourg | - | 100 |
| 8 | Gdanski A SCSp. | EUR | Luxembourg | 100 | 100 |
| 9 | Gdanski B SCSp. | EUR | Luxembourg | 100 | 100 |
| 10 | Gdanski C SCSp. [2] | EUR | Luxembourg | - | 100 |
| 11 | Gdanski D SCSp. [2] | EUR | Luxembourg | - | 100 |
| 12 | HB Reavis DE1 S.à r.l. | EUR | Luxembourg | 100 | 100 |
| 13 | HB Reavis DE2 S.à r.l. *(former TWO House S.à r.l.)* | EUR | Luxembourg | 100 | 100 |
| 14 | HB Reavis DE3 S.à r.l [1] | EUR | Luxembourg | 100 | - |
| 15 | HB Reavis Investment Management S.à r.l. | EUR | Luxembourg | 100 | 100 |
| 16 | HB REAVIS REAL ESTATE INVESTMENT FUND *(until 27.4.2017 as HB Reavis Real Estate SICAV-SIF)* [5] | EUR | Luxembourg | 100 | 100 |
| 17 | HB Reavis Strategic Innovations Investments S.à r.l.*( former THREE House S.à r.l.)* | EUR | Luxembourg | 100 | 100 |
| 18 | HBR CE REIF LUX 3 S.à r.l. | EUR | Luxembourg | 100 | 100 |
| 19 | HBR CE REIF LUX 4 S.à r.l. | EUR | Luxembourg | 100 | 100 |
| 20 | HubHub Luxembourg S.à r.l. (former Tribazu S.à r.l.) | EUR | Luxembourg | 100 | 100 |
| 21 | ONE House S.à r.l. | GBP | Luxembourg | 100 | 100 |
| 22 | SIXTYFIVE House S.à r.l. | GBP | Luxembourg | 100 | 100 |
| 23 | SRE Waterloo Properties S.à r.l. [4] | GBP | Luxembourg | - | 100 |
| 24 | THIRTYFIVE House S.à r.l. | GBP | Luxembourg | 100 | 100 |
| 25 | TWENTY House S.à r.l. | GBP | Luxembourg | 100 | 100 |
| 26 | HB Reavis Finance LUX, Sarl | EUR | Luxembourg | 100 | - |
| 27 | HB REAVIS GROUP B.V. | EUR | Netherlands | 100 | 100 |
| 28 | HB Reavis CEE B.V. | EUR | Netherlands | 100 | 100 |
| 29 | HB REAVIS Croatia B.V. | EUR | Netherlands | 100 | 100 |
| 30 | HBRG Invest B.V. | EUR | Netherlands | 100 | 100 |
| 31 | Twin City Holding N.V. | EUR | Netherlands | 100 | 100 |
| 32 | WATERFIELD Management B.V. | EUR | Netherlands | 99.5 | 99.5 |
| 33 | FILWOOD HOLDINGS LIMITED | EUR | Cyprus | 100 | 100 |
| 34 | HBR HOLDING LIMITED | EUR | Cyprus | 100 | 100 |
| 35 | HBR IM HOLDING LTD | EUR | Cyprus | 100 | 100 |
| 36 | HBR INVESTORS LTD | EUR | Cyprus | 100 | 100 |
| 37 | 10 Leake Street Ltd [6] | GBP | UK | 100 | 100 |
| 38 | 33 CENTRAL LIMITED | GBP | UK | 100 | 100 |
| 39 | 4th Floor Elizabeth House Limited [6] | GBP | UK | 100 | - |
| 40 | Elizabeth Property Holdings Ltd [6] | GBP | UK | 100 | 100 |
| 41 | Elizabeth Property Nominee (No 1) Ltd [6] | GBP | UK | 100 | 100 |
| 42 | Elizabeth Property Nominee (No 2) Ltd [6] | GBP | UK | 100 | 100 |
| 43 | Elizabeth Property Nominee (No 3) Ltd [6] | GBP | UK | 100 | 100 |
| 44 | Elizabeth Property Nominee (No 4) Ltd [6] | GBP | UK | 100 | 100 |

## 2 Significant Accounting Policies (Continued)

### 2.2. Consolidated Financial Statements (Continued)

| Number | Subsidiaries | Functional currency | Country of incorporation | Percentage ownership interest and voting rights held 31 December 2018 | 31 December 2017 |
|---|---|---|---|---|---|
| 45 | HB Reavis Construction UK Ltd. | GBP | UK | 100 | 100 |
| 46 | HB Reavis UK Ltd. | GBP | UK | 100 | 100 |
| 47 | HBR Capital Investment LP [6] | GBP | UK | 100 | 100 |
| 48 | HBR FM LTD [6] | GBP | UK | 100 | 100 |
| 49 | HubHub UK Ltd [6] | GBP | UK | 100 | - |
| 50 | HB REAVIS IM ADVISOR LIMITED | EUR | Jersey | 100 | 100 |
| 51 | The Waterloo Properties Unit Trust [4] | GBP | Jersey | - | 100 |
| 52 | Waterloo Trustee Ltd [4] | GBP | Jersey | - | 100 |
| 53 | HB Reavis Turkey Gayrimenkul Hizmetleri Limited Şirketi [2] | TRY | Turkey | - | 100 |
| 54 | HBR PROJE 1 Gayrimenkul Yönetimi Limited Şirketi [2] | TRY | Turkey | - | 100 |
| 55 | AGORA Budapest Kft. *(former HB Reavis Project 2 Kft.)* | HUF | Hungary | 100 | 100 |
| 56 | HB REAVIS Buda Project Kft. | HUF | Hungary | 100 | 100 |
| 57 | HB Reavis Construction Hungary Kft. | HUF | Hungary | 100 | 100 |
| 58 | HB Reavis Hungary Szolgáltató Kft. | HUF | Hungary | 100 | 100 |
| 59 | HubHub Hungary Kft. | HUF | Hungary | 100 | 100 |
| 60 | HB REAVIS Ingatlanfejlesztési Alap [1] | HUF | Hungary | 100 | - |
| 61 | KM Ingatlanbérbeadási Kft [1] | HUF | Hungary | 100 | - |
| 62 | ALISTON Finance I s. r. o. | EUR | Slovakia | 100 | 100 |
| 63 | ALISTON Finance II s.r.o. | EUR | Slovakia | 100 | 100 |
| 64 | ALISTON Finance III s. r. o. | EUR | Slovakia | 100 | 100 |
| 65 | ALISTON Finance IV s. r. o. | EUR | Slovakia | 100 | 100 |
| 66 | ALISTON Finance V s.r.o. | EUR | Slovakia | 100 | 100 |
| 67 | Apollo Business Center III a.s. | EUR | Slovakia | 100 | 100 |
| 68 | Apollo Business Center V a. s. | EUR | Slovakia | 100 | 100 |
| 69 | Apollo Property Management, s.r.o. | EUR | Slovakia | 100 | 100 |
| 70 | Bus Station Services s.r.o. | EUR | Slovakia | 100 | 100 |
| 71 | BUXTON INVEST a.s. | EUR | Slovakia | 100 | 100 |
| 72 | Eurovalley, a.s. | EUR | Slovakia | 100 | 96.5 |
| 73 | Evolution Building Technologies a.s. | EUR | Slovakia | 100 | 100 |
| 74 | FORUM BC II s. r. o. | EUR | Slovakia | 100 | 100 |
| 75 | General Property Services, a.s. | EUR | Slovakia | 100 | 100 |
| 76 | HB REAVIS Consulting k.s. | EUR | Slovakia | 100 | 100 |
| 77 | HB REAVIS Finance SK II s. r. o. | EUR | Slovakia | 100 | 100 |
| 78 | HB REAVIS Finance SK III s. r. o. | EUR | Slovakia | 100 | 100 |
| 79 | HB REAVIS Finance SK IV s.r.o. | EUR | Slovakia | 100 | 100 |
| 80 | HB REAVIS Finance SK s. r. o. | EUR | Slovakia | 100 | 100 |
| 81 | HB Reavis Group s.r.o. *(until 30.11.2017 as HB REAVIS Development s. r. o.)* | EUR | Slovakia | 100 | 100 |
| 82 | HB REAVIS IM Advisor Slovakia s. r. o. | EUR | Slovakia | 100 | 100 |
| 83 | HB Reavis Investment Management správ. spol., a.s. | EUR | Slovakia | 100 | 100 |
| 84 | HB REAVIS MANAGEMENT spol. s r.o. | EUR | Slovakia | 100 | 100 |
| 85 | HB REAVIS Slovakia a. s. | EUR | Slovakia | 100 | 100 |
| 86 | HB REM, spol. s r.o. | EUR | Slovakia | 100 | 100 |
| 87 | HBR SFA, s. r. o. | EUR | Slovakia | 100 | 100 |
| 88 | HubHub Slovakia s.r.o. | EUR | Slovakia | 100 | 100 |
| 89 | INLOGIS IV s. r. o. | EUR | Slovakia | 100 | 100 |
| 90 | INLOGIS LCR a. s. | EUR | Slovakia | 100 | 100 |
| 91 | INLOGIS V s. r. o. | EUR | Slovakia | 100 | 100 |
| 92 | INLOGIS VII s. r. o. | EUR | Slovakia | 100 | 100 |
| 93 | ISTROCENTRUM a. s. | EUR | Slovakia | 100 | 100 |
| 94 | Logistické centrum Trnava s.r.o. | EUR | Slovakia | 100 | 100 |
| 95 | LUGO, s.r.o. | EUR | Slovakia | 100 | 100 |
| 96 | Nivy Tower s.r.o. | EUR | Slovakia | 100 | 100 |
| 97 | Pressburg Urban Projects a. s. | EUR | Slovakia | 100 | 100 |
| 98 | Smart City Bridge s. r. o. | EUR | Slovakia | 100 | 100 |
| 99 | Smart City Eko s.r.o. | EUR | Slovakia | 100 | 100 |
| 100 | Smart City Link s.r.o. | EUR | Slovakia | 100 | 100 |
| 101 | Smart City Office I s.r.o. | EUR | Slovakia | 100 | 100 |
| 102 | Smart City Office II s.r.o. | EUR | Slovakia | 100 | 100 |
| 103 | Smart City Office III s.r.o. | EUR | Slovakia | 100 | 100 |
| 104 | Smart City Office IV s.r.o. | EUR | Slovakia | 100 | 100 |
| 105 | Smart City Office s.r.o. | EUR | Slovakia | 100 | 100 |
| 106 | Smart City Office V s.r.o. | EUR | Slovakia | 100 | 100 |
| 107 | Smart City Office VI s.r.o. | EUR | Slovakia | 100 | 100 |
| 108 | Smart City Office VII s.r.o. | EUR | Slovakia | 100 | 100 |
| 109 | Smart City Parking s.r.o. | EUR | Slovakia | 100 | 100 |
| 110 | Smart City Petržalka s. r. o. | EUR | Slovakia | 100 | 100 |
| 111 | Smart City s.r.o. *(until 10.2.2017 as ALISTON II s. r. o.)* | EUR | Slovakia | 100 | 100 |
| 112 | Smart City Services s.r.o. *(until 4.5.2017 as AUPARK Property Management, s. r. o.)* | EUR | Slovakia | 100 | 100 |
| 113 | SPC Property Finance II, s. r. o. | EUR | Slovakia | 100 | 100 |

## 2 Significant Accounting Policies (Continued)

### 2.2. Consolidated Financial Statements (Continued)

| Number | Subsidiaries | Functional currency | Country of incorporation | Percentage ownership interest and voting rights held 31 December 2018 | 31 December 2017 |
|---|---|---|---|---|---|
| 114 | SPC Property Finance III, s.r.o. | EUR | Slovakia | 100 | 100 |
| 115 | SPC Property Finance IV, s. r. o. | EUR | Slovakia | 100 | 100 |
| 116 | SPC Property Finance V, s. r. o. | EUR | Slovakia | 100 | 100 |
| 117 | SPC Property Finance, s. r. o. | EUR | Slovakia | 100 | 100 |
| 118 | SPC Property I, spol. s r.o. | EUR | Slovakia | 100 | 100 |
| 119 | SPC Property III, s. r. o. | EUR | Slovakia | 100 | 100 |
| 120 | SPV Vištuk s. r. o. | EUR | Slovakia | 100 | 100 |
| 121 | Stanica Nivy s.r.o. | EUR | Slovakia | 100 | 100 |
| 122 | TC Nivy a. s. | EUR | Slovakia | 100 | 100 |
| 123 | TC Tower A1 s. r. o. | EUR | Slovakia | 100 | 100 |
| 124 | Tower Nivy a. s. | EUR | Slovakia | 100 | 100 |
| 125 | Twin City a.s. [3] | EUR | Slovakia | - | 100 |
| 126 | Twin City III s.r.o. | EUR | Slovakia | 100 | 100 |
| 127 | Twin City Infrastructure s. r. o. | EUR | Slovakia | 100 | 100 |
| 128 | Twin City IV s.r.o. | EUR | Slovakia | 100 | 100 |
| 129 | Twin City V s.r.o. | EUR | Slovakia | 100 | 100 |
| 130 | Twin City VIII s.r.o. | EUR | Slovakia | 100 | 100 |
| 131 | FutureNow s. r. o. [1] | EUR | Slovakia | 100 | - |
| 132 | DVL Engineering a.s. [1] | EUR | Slovakia | 50 | - |
| 133 | HubHub Group s.r.o. [1] | EUR | Slovakia | 100 | - |
| 134 | HB REAVIS Finance SK V s. r. o. [1] | EUR | Slovakia | 100 | - |
| 135 | ANDAREA s.r.o. | CZK | Czech Rep | 100 | 100 |
| 136 | AR Consulting, a.s. | CZK | Czech Rep | 100 | 100 |
| 137 | AUPARK Brno, spol. s r.o. | CZK | Czech Rep | 100 | 100 |
| 138 | AUPARK Hradec Králové - KOMUNIKACE, s.r.o. | CZK | Czech Rep | 100 | 100 |
| 139 | AUPARK Karviná s.r.o. | CZK | Czech Rep | 100 | 100 |
| 140 | DII Czech s.r.o. | CZK | Czech Rep | 100 | 100 |
| 141 | DNW Czech s.r.o. | CZK | Czech Rep | 100 | 100 |
| 142 | FORSEA s.r.o. [2] | CZK | Czech Rep | - | 100 |
| 143 | GALIM s.r.o. | CZK | Czech Rep | 100 | 100 |
| 144 | HB Reavis CZ, a.s. | CZK | Czech Rep | 100 | 100 |
| 145 | HB REAVIS DEVELOPMENT CZ, a.s. | CZK | Czech Rep | 100 | 100 |
| 146 | HB Reavis Finance CZ, s.r.o. | EUR | Czech Rep | 100 | 100 |
| 147 | HB REAVIS GROUP CZ, s.r.o. | CZK | Czech Rep | 100 | 100 |
| 148 | HB Reavis IZ s.r.o. | CZK | Czech Rep | 100 | 100 |
| 149 | HB REAVIS MANAGEMENT CZ spol. s r.o. | CZK | Czech Rep | 100 | 100 |
| 150 | HB REAVIS PROPERTY MANAGEMENT CZ, s.r.o. | CZK | Czech Rep | 100 | 100 |
| 151 | HubHub Czech Republic, s.r.o. *(former RECLUN s.r.o.)* | CZK | Czech Rep | 100 | 100 |
| 152 | ISTROCENTRUM CZ, a.s. | CZK | Czech Rep | 100 | 100 |
| 153 | KELOM s.r.o. | CZK | Czech Rep | 100 | 100 |
| 154 | MOLDERA, a.s. | CZK | Czech Rep | 100 | 100 |
| 155 | Multimodální Cargo MOŠNOV s.r.o. | CZK | Czech Rep | 100 | 100 |
| 156 | Phibell s.r.o. | CZK | Czech Rep | 100 | 100 |
| 157 | Radlice Real Estate, s.r.o. | CZK | Czech Rep | 100 | 75 |
| 158 | Radlická ATA s.r.o. | CZK | Czech Rep | 100 | 100 |
| 159 | Temster, s.r.o. | CZK | Czech Rep | 100 | 100 |
| 160 | Brookline Investments sp. Z o.o. | PLN | Poland | 100 | 100 |
| 161 | Emmet Investments sp. Z o.o. | PLN | Poland | 100 | 100 |
| 162 | GBC A Polcom Investment XXI Sp. z o.o. *(former Polcom Investment VIII Sp. z o. o.)* | PLN | Poland | 100 | 100 |
| 163 | GBC B Polcom Investment XXII Sp. z o.o. *(former Polcom Investment IX Sp. z o.o.)* | PLN | Poland | 100 | 100 |
| 164 | GBC C Polcom Investment XXIX Sp. z o. sp. k [2] | PLN | Poland | - | 100 |
| 165 | GBC D Polcom Investment XXX Sp. z o. sp. k [2] | PLN | Poland | - | 100 |
| 166 | HB REAVIS CONSTRUCTION PL Sp. z o. o | PLN | Poland | 100 | 100 |
| 167 | HB Reavis Finance PL 2 Sp. z o.o. | PLN | Poland | 100 | 100 |
| 168 | HB Reavis Finance PL Sp. z o.o. [4] | PLN | Poland | - | 100 |
| 169 | HB Reavis JV Spółka Akcyjna | PLN | Poland | 100 | 100 |
| 170 | HB Reavis Poland Sp. z o.o. | PLN | Poland | 100 | 100 |
| 171 | HB REAVIS Property Management sp. z o.o. | PLN | Poland | 100 | 100 |
| 172 | HubHub Poland Sp. z o.o. *(former Polcom Investment XXVI Sp. z o.o.)* | PLN | Poland | 100 | 100 |
| 173 | CHM1 Sp. z o. o. | PLN | Poland | 100 | 100 |
| 174 | CHM2 Sp. z o. o. | PLN | Poland | 100 | 100 |
| 175 | CHM3 Sp. z o. o. | PLN | Poland | 100 | 100 |
| 176 | Jamestown Sp. z o.o. [2] | PLN | Poland | - | 100 |
| 177 | Jarrow Sp. z o.o. [2] | PLN | Poland | - | 100 |
| 178 | Konstruktorska BC Sp. z o.o. | PLN | Poland | 100 | 100 |
| 179 | Mokoloco Sp. z o.o.*(former Polcom Investment XXXVII Sp. z o.o.)* | PLN | Poland | 100 | 100 |
| 180 | P14 Sp. z o.o. | PLN | Poland | 100 | 100 |
| 181 | Polcom Investment II Sp. z o. o. | PLN | Poland | 100 | 100 |

## 2 Significant Accounting Policies (Continued)

## 2.2. Consolidated Financial Statements (Continued)

| Number | Subsidiaries | Functional currency | Country of incorporation | Percentage ownership interest and voting rights held 31 December 2018 | 31 December 2017 |
|---|---|---|---|---|---|
| 182 | Polcom Investment III Sp. z o. o. | PLN | *Poland* | 100 | 100 |
| 183 | Polcom Investment VI Sp. z o. o. | PLN | *Poland* | 100 | 100 |
| 184 | Polcom Investment X sp. z o.o. | PLN | Poland | 100 | 100 |
| 185 | Polcom Investment XI sp. z o.o. | PLN | Poland | 100 | 100 |
| 186 | Polcom Investment XII sp. z o.o. | PLN | Poland | 100 | 100 |
| 187 | Polcom Investment XIII sp. z o.o. | PLN | Poland | 100 | 100 |
| 188 | Polcom Investment XIX Sp. z o.o. | PLN | Poland | 100 | 100 |
| 189 | Polcom Investment XL Sp. z o.o. | PLN | Poland | 100 | 100 |
| 190 | Polcom Investment XLI Sp. z o.o. | PLN | Poland | 100 | 100 |
| 191 | Polcom Investment XLII Sp. z o.o. | PLN | Poland | 100 | 100 |
| 192 | Polcom Investment XLIII Sp. z o.o. | PLN | Poland | 100 | 100 |
| 193 | Polcom Investment XVI Sp. z o.o. | PLN | Poland | 100 | 100 |
| 194 | Polcom Investment XVIII Sp. z o.o. | PLN | Poland | 100 | 100 |
| 195 | Polcom Investment XXI Sp. z o.o. | PLN | Poland | 100 | 100 |
| 196 | Polcom Investment XXII Sp. z o.o. | PLN | Poland | 100 | 100 |
| 197 | Polcom Investment XXIV Sp. z o.o. | PLN | Poland | 100 | 100 |
| 198 | Polcom Investment XXIX Sp. z o.o. | PLN | Poland | 100 | 100 |
| 199 | Polcom Investment XXV Sp. z o.o. | PLN | Poland | 100 | 100 |
| 200 | Polcom Investment XXVII Sp. z o.o. | PLN | Poland | 100 | 100 |
| 201 | Polcom Investment XXVIII Sp. z o.o. | PLN | Poland | 100 | 100 |
| 202 | Polcom Investment XXX Sp. z o.o. | PLN | Poland | 100 | 100 |
| 203 | Polcom Investment XXXIII Sp. z o.o. | PLN | Poland | 100 | 100 |
| 204 | Property Hetman Sp. Z o.o. *(former Polcom Investment XXXIV Sp. z o.o. sp. k)* | PLN | Poland | 100 | 100 |
| 205 | PSD Sp. Z o. o. | PLN | Poland | 100 | 100 |
| 206 | Rainford Sp. Z.o.o [1] | PLN | Poland | 100 | - |
| 207 | Rainhill Sp. z o. o. [1] | PLN | Poland | 100 | - |
| 208 | Polcom Investment XLVII Sp. z o.o. [1] | PLN | Poland | 100 | - |
| 209 | Polcom Investment XLVIII Sp. z o.o. [1] | PLN | Poland | 100 | - |
| 210 | Polcom Investment XLIX Sp. z o.o. [1] | PLN | Poland | 100 | - |
| 211 | Elizabeth House GP LLC | GBP | US | 100 | 100 |
| 212 | Elizabeth House Limited Partnership | GBP | US | 100 | 100 |
| 213 | HB REAVIS CIC INVESTCO US, LLC [1] | EUR | US | 100 | - |
| 214 | HB Reavis Germany GmbH | EUR | Germany | 100 | 100 |
| 215 | HB Reavis Construction Germany GmbH | EUR | Germany | 100 | 100 |
| 216 | UBX 2 Objekt Berlin GmbH [1] | EUR | Germany | 100 | - |
| 217 | HB Reavis Verwaltungs GmbH [1] | EUR | Germany | 100 | - |
| 218 | HubHub Austria GmbH [1] | EUR | Austria | 100 | - |

| Number | Joint Venture | Functional currency | Country of incorporation | Percentage ownership interest and voting rights held 31 December 2018 | 31 December 2017 |
|---|---|---|---|---|---|
| 219 | PHVH SOLUTIONS II, s. r. o. | EUR | Slovakia | 50 | 50 |
| 220 | TANGERACO INVESTMENTS LIMITED | EUR | Cyprus | 50 | 50 |
| 221 | West Station Investment Sp. z o. o. | PLN | Poland | 71 | 71 |
| 222 | West Station Investment 2 Sp. z o. o. *(former Polcom Investment XVII Sp. z o.o.)* | PLN | Poland | 72 | 72 |

[1] *Entities established / acquired by the Group during the year ended 31 December 2018*
[2] *Entities disposed of during the year ended 31 December 2018 (refer to Note 25)*
[3] *Entities were part of legal mergers or spin off and subsequently renamed during the year ended 31 December 2018*
[4] *Entities were liquidated during the year ended 31 December 2018.*
[5] *In January 2017, the Group lost control over HB REAVIS CE Real Estate Investment Fund, a sub-fund of a fully consolidated subsidiary HB Reavis Real Estate Investment Fund.*
[6] *HBR FM LTD, HBR Capital Investment LP, HubHub UK Ltd, 4th Floor Elizabeth House Limited, 10 Leake Street Ltd, Elizabeth Property Nominee (No 1) Ltd, Elizabeth Property Nominee (No 2) Ltd, Elizabeth Property Nominee (No 3) Ltd, Elizabeth Property Nominee (No 4) Ltd and Elizabeth Property Holdings Ltd, registered in England and Wales, are claiming exemption from the requirements of the UK Companies Act 2006 (the "Act") relating to the audit of annual accounts under section 479A of the Act.*

***Business combinations.*** The acquisition method of accounting is used to account for the acquisition of subsidiaries that represent a business, except those acquired from parties under common control. A business is defined as an integrated set of activities and assets conducted and managed for the purpose of providing a return to investors or lower costs or other economic benefits directly and proportionately to policyholders or participants. A business generally consists of inputs, processes applied to those inputs, and resulting outputs that are, or will be, used to generate revenues. If goodwill is present in a transferred set of activities and assets, the transferred set is presumed to be a business.

The consideration transferred for the acquiree is measured at the fair value of the assets given up, equity instruments issued and liabilities incurred or assumed, including fair value of assets or liabilities from contingent consideration arrangements, but excludes acquisition related costs such as advisory, legal, valuation and similar professional services.

## 2 Significant Accounting Policies (Continued)

### 2.2. Consolidated Financial Statements (Continued)

Transaction costs incurred for issuing equity instruments are deducted from equity; transaction costs incurred for issuing debt are deducted from its carrying amount and all other transaction costs associated with the acquisition are expensed. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured at their fair values at the acquisition date, irrespective of the extent of any non-controlling interest.

Goodwill is measured by deducting the net assets of the acquiree from the aggregate of the consideration transferred for the acquiree, the amount of non-controlling interest in the acquiree and fair value of an interest in the acquiree held immediately before the acquisition date. Any negative amount ("negative goodwill") is recognised in profit or loss, after management reassesses whether it identified all the assets acquired and all liabilities and contingent liabilities assumed, and reviews appropriateness of their measurement.

Non-controlling interest is that part of the net results and of the equity of a subsidiary attributable to interests which are not owned, directly or indirectly, by the Group. Non-controlling interest forms a separate component of the Group's equity. At acquisition date, the Group measures non-controlling interest that represents present ownership interest and entitles the holder to a proportionate share of net assets in the event of liquidation on a transaction by transaction basis, either at: (a) fair value, or (b) the non-controlling interest's proportionate share of net assets of the acquiree. Non-controlling interests that are not present ownership interests are measured at fair value.

Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated; unrealised losses are also eliminated unless the cost cannot be recovered. The Company and all of its subsidiaries use uniform accounting policies consistent with the Group's policies.

***Acquisitions of subsidiaries holding investment properties.*** The Group may invest in subsidiaries that hold properties but do not constitute a business. These transactions are therefore treated as asset acquisitions rather than business combinations. The Group allocates the cost of the acquisition to the individual identifiable assets and liabilities based on their relative fair values at the date of acquisition. These transactions do not give rise to goodwill.

***Purchases of subsidiaries from parties under common control.*** Purchases of subsidiaries from parties under common control are accounted for using the predecessor values method. Under this method, the consolidated financial statements are presented as if the businesses had been consolidated from the beginning of the earliest period presented or, if later, the date when the consolidated entities were first brought under common control. The assets and liabilities of the subsidiary transferred under common control are at the predecessor entity's carrying amounts. The predecessor entity is considered to be the highest reporting entity in which the subsidiary's IFRS financial information was consolidated. Related goodwill inherent in the predecessor entity's original acquisitions is also recorded in these consolidated financial statements. Any difference between the carrying amount of net assets, including the predecessor entity's goodwill, and the consideration for the acquisition is accounted for in these consolidated financial statements as an adjustment within equity.

***Associates.*** Associates are entities over which the Group has significant influence (directly or indirectly), but not control, generally accompanying a shareholding of between 20 and 50 percent of the voting rights. Investments in associates are accounted for using the equity method of accounting and are initially recognised at cost, and the carrying amount is increased or decreased to recognise the investor's share of the profit or loss of the investee after the date of acquisition. Dividends received from associates reduce the carrying value of the investment in associates. Other post-acquisition changes in the Group's share of net assets of an associate are recognised as follows: (i) the Group's share of profits or losses of associates is recorded in the consolidated profit or loss for the year as the share of results of associates, (ii) the Group's share of other comprehensive income is recognised in other comprehensive income and presented separately, (iii); all other changes in the Group's share of the carrying value of net assets of associates are recognised in profit or loss within the share of results of associates.

When an investment in associate or a joint venture is held by, or is held indirectly through, an entity that is a venture capital organisation, or a mutual fund, unit trust and similar entities including investment – linked insurance funds, the entity may elect to measure that investment at fair value through profit or loss in accordance with IFRS 9. An entity shall make this election separately for each associate or joint venture, at initial recognition of the associate or joint venture.

The Group elected to measure its investment in associate acquired during 2018 at fair value through profit or loss.

***Joint arrangements***. Investments in joint arrangements are classified as either joint operations or joint ventures depending on the contractual rights and obligations of each investor. The Company has assessed the nature of its joint arrangements and determined them to be joint ventures. Joint ventures are accounted for using the equity method.

Under the equity method of accounting, interests in joint ventures are initially recognised at cost and adjusted thereafter to recognise the Group's share of the post-acquisition profits or losses and movements in other comprehensive income. When the Group's share of losses in a joint venture equals or exceeds its interests in the joint ventures (which includes any long-term interests that, in substance, form part of the Group's net investment in the joint ventures), the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the joint ventures.

Unrealised gains on transactions between the Group and its joint ventures are eliminated to the extent of the Group's interest in the joint ventures. Unrealised losses are also eliminated unless the transaction provides evidence of an

## 2 Significant Accounting Policies (Continued)

### 2.2. Consolidated Financial Statements (Continued)

impairment of the asset transferred. Accounting policies of the joint ventures have been changed where necessary to ensure consistency with the policies adopted by the Group.

***Disposals of subsidiaries or joint ventures.*** When the Group ceases to have control or joint control, any retained interest in the entity is remeasured to its fair value, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are recycled to profit or loss.

If the ownership interest in a joint venture is reduced but joint control is retained, only a proportionate share of the amounts previously recognised in other comprehensive income is reclassified to profit or loss, where appropriate.

***Purchases and sales of non-controlling interests.*** The Group applies the economic entity model to account for transactions with owners of non-controlling interest. Any difference between the purchase consideration and the carrying amount of non-controlling interest acquired is recorded as a capital transaction directly in equity. The Group recognises the difference between sales consideration and carrying amount of non-controlling interest sold as a capital transaction in the statement of changes in equity.

### 2.3 Foreign Currency Transactions and Translation

***Functional and presentation currency.*** Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the 'functional currency'). The functional currency of all the Group's entities is their local currency, except bonds issuance entities that are considered an extention of the Company and therefore have EUR as their functional currency. The consolidated financial statements are presented in millions of euro (EUR), which is the Group's presentation currency.

***Transactions and balances.*** Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

Non-monetary items measured at fair value in a foreign currency, including properties or equity investments, are translated using the exchange rates at the date when the fair value was determined. Effects of exchange rate changes on non-monetary items measured at fair value in a foreign currency are recorded as part of the fair value gain or loss.

***Group companies.*** The results and financial position of all the group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each balance sheet date are translated at the closing rates at the date of that balance sheet;
- income and expenses and movements in equity are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expense are translated at the rate on the dates of the transactions); and
- all resulting exchange differences are recognised in other comprehensive income.

Loans between group entities and related foreign exchange gains or losses are eliminated upon consolidation. However, where the loan is between group entities that have different functional currencies, the foreign exchange gain or loss cannot be eliminated in full and is recognized in the consolidated profit or loss, unless the loan is not expected to be settled in the foreseeable future and thus forms part of the net investment in foreign operation. In such a case, the foreign exchange gain or loss is recognized in other comprehensive income.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate. Exchange differences arising are recognised in other comprehensive income/(loss).

When control over a foreign operation is lost, the previously recognised exchange differences on translation to a different presentation currency are reclassified from other comprehensive income to profit or loss for the year as part of the gain or loss on disposal. On partial disposal of a subsidiary without loss of control, the related portion of accumulated currency translation differences is reclassified to non-controlling interest within equity.

## 2 Significant Accounting Policies (Continued)

### 2.4 Property, Plant and Equipment

All property, plant and equipment items are carried at cost less accumulated depreciation and accumulated impairment losses.

***Cost.*** Cost includes expenditure that is directly attributable to the acquisition of the items of property plant and equipment. Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. All other repairs and maintenance are charged to profit or loss during the financial period in which they are incurred.

***Depreciation.*** The depreciation of property, plant and equipment starts in the month when the property, plant and equipment is available for use. Property, plant and equipment is depreciated in line with the approved depreciation plan using the straight-line method. Monthly depreciation charge is determined as the difference between acquisition costs and residual value, divided by estimated useful life of the property, plant and equipment.

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately. The Group allocates the amount initially recognized in respect of an item of property, plant and equipment proportionally to its significant parts and depreciates separately each such part.

Buildings include mainly administrative offices and premises used by the Group management. Equipment, fixtures and fittings include mainly hardware, servers, telephone exchanges, remote control equipment, office furniture and others. Motor vehicles include the Group's passenger cars.

| | Useful lives in years |
|---|---|
| Buildings | 30 years |
| Machinery, equipment, fixtures and fittings | 4 to 6 years |
| Vehicles and other assets | 6 to 8 years |

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

The residual value of an asset is the estimated amount that the Group would currently obtain from disposal of the asset less the estimated costs of disposal, if the assets were already of the age and in the conditions expected at the end of their useful life. The residual value of an asset is nil or its scrap value if the Group expects to use the asset until the end of its physical life.

Land and assets under construction are not depreciated.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.7).

Items that are retired or otherwise disposed of are eliminated from the balance sheet, along with the corresponding accumulated depreciation. Gains and losses on disposals are determined by comparing proceeds with the carrying amount and are included in operating profit.

### 2.5 Investment Property

Investment property is property held by the Group to earn rental income or for capital appreciation, or both and which is not occupied by the Group. Investment property includes assets under construction for future use as investment property.

Investment property comprises freehold land, freehold commercial properties (retail, office and logistics) and land plots held under operating and finance leases. Land plots held under operating lease are classified and accounted for as investment property when the definition of investment property is met. In such cases the related operating leases are accounted for as if they were finance leases.

Investment property is initially valued at historical cost including related transaction costs. Costs include the works performed, the costs of staff directly related to technical supervision and project management on the basis of time spent up to the date of completion.

After initial recognition at cost, the investment property, including property under construction or development for future use as investment property, is carried at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is based on transaction prices from active markets, adjusted, if necessary, for any difference in the nature, location or condition of the specific asset.

If this information is not available, the Group uses alternative valuation methods such as recent prices on less active markets or discounted cash flow projections. Valuation reports as of the balance sheet date are prepared by independent appraisers, who hold a recognized and relevant professional qualification and who have recent experience in valuation of property of similar location and category. Investment property that is being redeveloped for continuing use as investment property or for which the market has become less active continues to be measured at fair value.

## 2 Significant Accounting Policies (Continued)

### 2.5 Investment Property (Continued)

The fair value of investment property reflects, among other things, rental income from current leases and assumptions about rental income from future leases in the light of current market conditions. The fair value also reflects, on a similar basis, any cash outflows that could be expected in respect of the property. Some of those outflows are recognized as a liability, including finance lease liabilities in respect of land classified as investment property; others, including contingent rent payments or future capital expenditure, are not recognized in the consolidated financial statements. Transaction costs, such as estimated agency and legal and accounting fees and transfer taxes are not deducted for the purposes of valuation of investment property in these financial statements irrespective whether or not they form part of the described valuations.

Subsequent expenditures are capitalised to the asset's carrying amount only when it is probable that future economic benefits associated with these expenditures will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance costs are expensed to the profit or loss during the financial period in which they are incurred. When part of an investment property is replaced, the carrying amount of the replaced part is derecognised. From financial year 2018 the Group capitalise development fee to the asset's carrying value as it is probable that future economic benefits associated with the expenditure will flow to the Group. In prior years development fee was expensed to the consolidated income statement when incurred.

The fair value of investment property does not reflect future capital expenditure that will improve or enhance the property and does not reflect the related future benefits from this future expenditure other than those a rational market participant would take into account when determining the value of the property.

Changes in fair values are recorded in profit or loss as "Revaluation gain/(loss) on investment properties". Investment properties are derecognised when they have been disposed of or classified as Assets held for sale.

If an item of property, plant and equipment becomes an investment property because its use has changed, any revaluation gain resulting from a difference between the carrying amount and the fair value of this item at the date of transfer is recognized in other comprehensive income and accumulated in a revaluation reserve in equity, until the asset's disposal when the revaluation reserve is reclassified to retained earnings.

If an investment property becomes owner-occupied, it is reclassified as property, plant and equipment, and its fair value at the date of reclassification becomes its cost for accounting purposes. Property that is being constructed or developed for future use as investment property is classified as investment property and stated at fair value.

Where an investment property undergoes a change in use evidenced by commencement of development with a view to sale, the property is transferred to inventories. A property's deemed cost for subsequent accounting as inventories is its fair value at the date of change in use.

The Group classifies the investment property for the presentation purposes as investment properties in use or vacant and investment properties under development based on the stage of completion of the individual property construction and progress of leasing space to tenants. Consistently with classification for purposes of segmental analysis (see Note 6), the Group classifies a property as "in use or vacant" from the end of the accounting period in which legal requirements have been met. The Group also presents the value of investment properties and related income and expenses by following types of properties – office, retail, and industrial – classified by the prevailing function of the property for its tenants.

### 2.6 Intangible Assets

***Goodwill.*** See Note 2.2 for the accounting policy on goodwill. Goodwill is not amortised but is tested for impairment at the end of each annual reporting period.

***Other intangible assets.*** All of the Group's other intangible assets have definite useful lives and primarily include externally acquired computer software licences.

Intangible assets are initially measured at cost. The cost of intangible assets acquired in a business combination is their fair value at the date of acquisition. Intangible assets are recognized if it is probable that the future economic benefits that are attributable to the asset will flow to the Group, and the asset can be measured reliably. After initial recognition, the intangible assets are measured at cost less accumulated amortization and any accumulated impairment losses.

Intangible assets are amortized on the straight-line basis over their useful lives:

| | Useful lives in years |
|---|---|
| Software and software licences | 5 years |

The amortisation of an intangible asset starts in the month when the intangible asset is available for use. Intangible assets are depreciated in line with the approved depreciation plan using the straight-line method. Amortisation charge is determined as the difference between acquisition costs and residual value, divided by estimated useful life of the intangible assets. If impaired, the carrying amount of intangible assets is written down to the higher of value in use and fair value less costs to sell.

## 2 Significant Accounting Policies (Continued)

### 2.6. Intangible Assets (Continued)

Residual value of intangible assets is assumed to be zero unless (a) there is a commitment by a third party to purchase the asset at the end of its useful life, or (b) there is an active market for the asset and residual value can be determined by the reference to that market and it is probable that such a market will exist at the end of the asset's useful life.

Costs associated with maintaining computer software programmes are recognized as an expense as incurred. Development costs that are directly attributable to the design and testing of identifiable and unique software products controlled by the Group are recognized as intangible assets when the following criteria are met:
- it is technically feasible to complete the software product so that it will be available for use;
- management intends to complete the software product and use or sell it;
- there is an ability to use or sell the software product;
- it can be demonstrated how the software product will generate probable future economic benefits;
- adequate technical, financial and other resources to complete the development and to use or sell the software product are available; and
- the expenditure attributable to the software product during its development can be reliably measured.

Directly attributable costs that are capitalised as part of the software product include the software development employee costs and an appropriate portion of relevant overheads. Other development expenditures that do not meet these criteria are recognized as an expense as incurred. Development costs previously recognized as an expense are not recognized as an asset in a subsequent period.

### 2.7 Impairment of Non-Financial Assets

Goodwill and intangible assets not yet available for use are not subject to amortization and are tested for impairment annually. Assets that are subject to depreciation or amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount.

The recoverable amount is the higher of an asset's fair value less costs to sell or its value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are individually identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that were impaired are reviewed for possible reversal of the impairment at the end of each reporting period.

### 2.8 Financial Instruments

***Initial recognition.*** Financial instruments at fair value through profit and loss ("FVTPL") are initially recorded at fair value. All other financial instruments are initially recorded at fair value adjusted for transaction costs. Fair value at initial recognition is best evidenced by the transaction price.

***Financial assets - classification and subsequent measurement – measurement categories.*** As at 31 December 2018 the Group classifies financial assets in the following measurement categories: FVTPL, fair value through other comprehensive income ("FVOCI") and amortised cost ("AC"). The classification and subsequent measurement of debt financial assets depends on: (i) the Group's business model for managing the related assets portfolio and (ii) the cash flow characteristics of the asset. The Group's financial assets consist of receivables and loans, trade and other receivables and derivatives. Financial assets recognised in the consolidated statement of financial position as trade and other receivables and receivables and loans are recognised initially at fair value and subsequently measured at amortised cost less allowance for expected credit losses ("ECL"). Derivatives are measured at fair value at each end of the reporting period with changes in value recognised in profit or loss.

As at 31 December 2017 financial assets were classified as financial assets at fair value through profit or loss, loans and receivables, held-to maturity financial assets and available-for-sale financial assets, as appropriate. The Group's financial assets consisted of loans and receivables, derivatives, and available-for-sale financial assets. Financial assets recognised in the consolidated statement of financial position as trade and other receivables were classified as loans and receivables. They were initially recognised at fair value and subsequently measured at amortised cost less provision for impairment. Derivatives and investments held for trading were measured at fair value at each end of the reporting period with changes in value recognised in profit or loss. Available for sale financial assets were recognised at fair value with revaluation gains or losses representing the difference between amortised cost and fair value recognised in other comprehensive income until the asset was derecognised or impaired. Interest income on the available-for-sale assets included effects of changes in cash flow estimates of earn-out receivables; hence, the fair value changes recognised in other comprehensive income were insignificant.

***Financial assets - classification and subsequent measurement – business model.*** The business model reflects how the Group manages the assets in order to generate cash flows – whether the Group's objective is: (i) solely to collect the contractual cash flows from the assets ("hold to collect contractual cash flows") or (ii) to collect both the contractual cash flows and the cash flows arising from the sale of assets ("hold to collect contractual cash flows and sell") or, if neither of (i) and (ii) is applicable, the financial assets are classified as part of "other" business model and measured at FVTPL.

## 2 Significant Accounting Policies (Continued)

### 2.8. Financial Instruments (Continued)

Business model is determined for a group of assets (on a portfolio level) based on all relevant evidence about the activities that the Group undertakes to achieve the objective set out for the portfolio available at the date of the assessment. Factors considered by the Group in determining the business model include the purpose and composition of a portfolio, past experience on how the cash flows for the respective assets were collected, how risks are assessed and managed and how the assets' performance is assessed. Refer to Note 3 for critical judgements applied by the Group in determining the business models for its financial assets.

***Debt financial assets - Classification and subsequent measurement – cash flow characteristics.*** Where the business model is to hold assets to collect contractual cash flows or to hold contractual cash flows and sell, the Group assesses whether the cash flows represent solely payments of principal and interest ("SPPI"). Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are consistent with the SPPI feature.

Where the contractual terms introduce exposure to risk or volatility that is inconsistent with a basic lending arrangement, the financial asset is classified and measured at FVTPL. The SPPI assessment is performed on initial recognition of an asset and it is not subsequently reassessed.

***Financial assets – reclassification.*** Debt financial assets are reclassified only when the business model for managing the portfolio as a whole changes. The reclassification has a prospective effect and takes place from the beginning of the first reporting period that follows after the change in the business model. The entity did not change its business model during the current and comparative period and did not make any reclassifications.

***Financial assets impairment – credit loss allowance for ECL (expected credit losses).*** The Group assesses, on a forward-looking basis, the ECL for financial instruments measured at amortised cost and FVOCI and for the exposures arising from loan commitments, financial guarantee contracts and for contract assets. The Group measures ECL and recognises Net impairment losses on financial and contract assets at each reporting date. The measurement of ECL reflects: (i) an unbiased and probability weighted amount that is determined by evaluating a range of possible outcomes, (ii) time value of money and (iii) all reasonable and supportable information that is available without undue cost and effort at the end of each reporting period about past events, current conditions and forecasts of future conditions.

Financial instruments measured at amortised cost and contract assets are presented in the consolidated statement of financial position net of the allowance for ECL. For loan commitments and financial guarantees, if any, a separate provision for ECL is recognised as a liability in the consolidated statement of financial position. For debt instruments at FVOCI, changes in amortised cost, net of allowance for ECL, are recognised in profit or loss and other changes in carrying value are recognised in other comprehensive income ("OCI") as gains less losses on debt instruments at FVOCI.

The Group applies a three-stage model for impairment, based on changes in credit quality since initial recognition. A financial instrument that is not credit-impaired on initial recognition is classified in Stage 1. Financial assets in Stage 1 have their ECL measured at an amount equal to the portion of lifetime ECL that results from default events possible within the next 12 months or until contractual maturity, if shorter ("12 Months ECL"). If the Group identifies a significant increase in credit risk ("SICR") since initial recognition, the asset is transferred to Stage 2 and its ECL is measured based on ECL on a lifetime basis, that is, up until contractual maturity but considering expected prepayments, if any ("Lifetime ECL"). If the Group determines that a financial asset is credit-impaired, the asset is transferred to Stage 3 and its ECL is measured as a Lifetime ECL. For financial assets that are purchased or originated credit-impaired ("POCI Assets"), the ECL is always measured as a Lifetime ECL. Note 29 provides information about inputs, assumptions and estimation techniques used in measuring ECL, including an explanation of how the Group incorporates forward-looking information in the ECL models.

***Financial assets - write-off.*** Financial assets are written-off, in whole or in part, when the Group exhausted all practical recovery efforts and has concluded that there is no reasonable expectation of recovery. The write-off represents a derecognition event. The Group may write-off financial assets that are still subject to enforcement activity when the Group seeks to recover amounts that are contractually due, however, there is no reasonable expectation of recovery.

***Financial assets – derecognition.*** The Group derecognises financial assets when (a) the assets are redeemed or the rights to cash flows from the assets otherwise expire or (b) the Group has transferred the rights to the cash flows from the financial assets or entered into a qualifying pass-through arrangement whilst (i) also transferring substantially all the risks and rewards of ownership of the assets or (ii) neither transferring nor retaining substantially all the risks and rewards of ownership but not retaining control. Control is retained if the counterparty does not have the practical ability to sell the asset in its entirety to an unrelated third party without needing to impose additional restrictions on the sale.

***Cash & cash equivalents.*** Cash and cash equivalents include cash in hand, deposits held at call with banks and other short- term highly liquid investments with original maturities of three months or less. Cash and cash equivalents are carried at amortised cost because: (i) they are held for collection of contractual cash flows and those cash flows represent SPPI, and (ii) they are not designated at FVTPL.

As at 31 December 2017 Cash and cash equivalents were classified as loans and receivables. They were subsequently measured at amortised cost.

## 2 Significant Accounting Policies (Continued)

### 2.8. Financial Instruments (Continued)

***Trade and other receivables.*** Trade and other receivables are recognised initially at fair value and are subsequently carried at amortised costs using the effective interest method.

The Group calculates ECL on trade receivables using a provision matrix estimation technique. The Group uses its historic credit loss experience adjusted for all reasonable and supportable information that is available without undue cost or effort for trade and other receivables to estimate ECL. Prior to 1 January 2018, impairment provisions were recognised for incurred losses only if objective evidence of impairment was present. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganization, and default or delinquency in payments are considered indicators that the trade receivable is impaired. The amount of the provision was the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the asset is reduced through use of an allowance account, and the amount of the loss is included in other operating expenses. Any subsequent reversal of an impairment loss is recognised in profit or loss.

***Derivative financial instruments.*** Derivative financial instruments are carried at their fair value. All derivative instruments are carried as assets when fair value is positive and as liabilities when fair value is negative. Changes in the fair value of derivative instruments are included in profit or loss for the year. The Group does not apply hedge accounting.

Recognition of the derivative financial instruments takes place when the economic hedging contracts are entered into. They are measured initially and subsequently at fair value; transaction costs are included directly in finance costs.

Certain derivative instruments embedded in financial liabilities and other non-financial contracts are treated as separate derivative instruments when their risks and characteristics are not closely related to those of the host contract.

***Financial liabilities – measurement categories.*** Financial liabilities are classified as subsequently measured at amortised cost, except for (i) financial liabilities at FVTPL: this classification is applied to derivatives, financial liabilities held for trading (e.g. short positions in securities), contingent consideration recognised by an acquirer in a business combination and other financial liabilities designated as such at initial recognition and (ii) financial guarantee contracts and loan commitments.

***Financial liabilities – derecognition.*** Financial liabilities are derecognised when they are extinguished (i.e. when the obligation specified in the contract is discharged, cancelled or expires).

An exchange between the Group and its original lenders of debt instruments with substantially different terms, as well as substantial modifications of the terms and conditions of existing financial liabilities, are accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. The terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10% different from the discounted present value of the remaining cash flows of the original financial liability. In addition, other qualitative factors, such as the currency that the instrument is denominated in, changes in the type of interest rate, new conversion features attached to the instrument and change in loan covenants are also considered. If an exchange of debt instruments or modification of terms is accounted for as an extinguishment, any costs or fees incurred are recognised as part of the gain or loss on the extinguishment. If the exchange or modification is not accounted for as an extinguishment, any costs or fees incurred adjust the carrying amount of the liability and are amortised over the remaining term of the modified liability.

Modifications of liabilities that do not result in extinguishment are accounted for as a change in estimate using a cumulative catch up method, with any gain or loss recognised in profit or loss, unless the economic substance of the difference in carrying values is attributed to a capital transaction with owners.

***Loans and borrowings.*** All loans and borrowings are measured at amortised cost. Initial recognition is at fair value less directly attributable transaction costs. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method (see Note 2.14 for the accounting policy on Borrowings).

Financial liabilities included in trade and other payables are recognised initially at fair value and subsequently at amortised cost. The fair value of a non-interest-bearing liability is its discounted repayment amount. If the due date of the liability is less than one year, discounting is omitted as its impact would be insignificant.

## 2 Significant Accounting Policies (Continued)

### 2.9 Leases

A lease is an agreement whereby the lessor conveys to the lessee in return for a payment, or series of payments, the right to use the asset for an agreed period of time.

***Operating leases.*** When assets are leased out under an operating lease, the lease payments receivable are recognised as rental income on a straight-line basis over the lease term. The lease term is the non-cancellable period for which the lessee has contracted to lease the asset together with any further terms for which the lessee has the option to continue to lease the asset, with or without further payment, when at the inception of the lease it is reasonably certain that the lessee will exercise the option. Assets leased out under operating leases are shown under investment property heading in the consolidated statement of financial position (Note 9). See Note 2.18 for the policies on recognition of rental income. Tenant deposits securing lease payments are accounted for as financial liabilities carried at amortised cost (Note 19).

Where the Group is a lessee in a lease which does not transfer substantially all the risks and rewards incidental to ownership from the lessor to the Group, the total lease payments are charged to profit or loss on a straight-line basis over the lease term with the exception of the operating leases for land classified as investment property; such leases are accounted for as finance leases.

***Finance leases and property interests held under operating leases.*** Where the Group is a lessee in a lease (a) which transferred substantially all the risks and rewards incidental to ownership to the Group or (b) the Group elected to classify a property interest held under an operating lease as investment property and therefore accounts for the lease as if it was a finance lease, the assets leased are capitalised in investment property at the commencement of the lease at the lower of the fair value of the property interest or the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of future finance charges, are included in borrowings. The interest cost is charged to the consolidated profit and loss over the lease period using the effective interest method. The investment properties acquired under finance leases are carried at fair value.

### 2.10 Current and Deferred Income Taxes

Income taxes have been provided for in the consolidated financial statements in accordance with applicable legislation enacted or substantively enacted by the financial position date and on entity by entity basis. The income tax charge comprises current tax and deferred tax and is recognised in profit or loss unless it relates to transactions that are recognised, in the same or a different period, directly in equity or in other comprehensive income.

Current tax is the amount expected to be paid to or recovered from the taxation authorities in respect of taxable profits or losses for the current and prior periods. Taxes other than on income are recorded within operating expenses.

Deferred income tax is provided using the balance sheet liability method for tax loss carry forward and temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. In accordance with the initial recognition exemption, deferred taxes are not recorded for temporary differences on initial recognition of an asset or a liability in a transaction other than a business combination if the transaction, when initially recorded, affects neither accounting nor taxable profit or loss. Deferred tax balances are measured at tax rates enacted or substantively enacted at the end of the respective reporting period and are expected to apply to the period when the temporary differences will reverse or the tax losses carry forward will be utilised. Deferred tax assets for deductible temporary differences and tax loss carry forwards are recorded only to the extent that it is probable that future taxable profit will be available against which the deductions can be utilised.

The carrying value of Group’s investment property is assumed to be realised by sale. The capital gains tax rate applied is that which would apply on a direct sale of the property recorded in the consolidated statement of financial position regardless of whether the Group would structure the sale via the disposal of the subsidiary holding the asset to which a different tax rate may apply. The deferred tax is then calculated based on the respective temporary differences and tax considerations arising from recovery through sale.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

## 2 Significant Accounting Policies (Continued)

### 2.11 Inventories

Inventories represent land expected to be developed into residential property in line with the zoning and other regulatory requirements for the Group's projects and land held for disposal in the normal course of business. Inventories are presented as current because of the term of the operating cycle, but their carrying amount is expected to be recovered after 12 months. Inventories are recorded at the lower of cost and net realisable value. The cost of inventories comprises the cost of acquisition, and construction and other development costs incurred. Net realisable value is the estimated selling price in the ordinary course of business, less the cost of completion and selling expenses.

### 2.12 Share Capital and Share Premium

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds. Any excess of the fair value of consideration received or receivable over the par value of shares issued is presented as a share premium.

### 2.13 Dividends and Other Distributions to Owners

Dividends are recognised as a liability and deducted from equity at the balance sheet date only if they are declared before or at the end of the reporting period. Dividends are disclosed when they are declared after the reporting period but before the consolidated financial statements are authorised for issue.

### 2.14 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. After initial recognition, borrowings are carried at amortised cost using the effective interest method. Any difference between the proceeds (net of transaction costs) and the redemption value is recognised in profit or loss using the effective interest method. The Group does not capitalise interest related to qualifying assets that are carried at fair value, including investment properties. Accordingly, interest costs on borrowings are expensed as incurred.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

### 2.15 Trade and Other Payables

Trade payables are accrued when the counterparty performed its obligations under the contract. Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

### 2.16 Provisions for Liabilities and Charges

Provisions for liabilities and charges are recognised when the Group has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to the passage of time is recognised as interest expense.

Where the Group expects a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

### 2.17 Uncertain Tax Positions

The Group's uncertain tax positions are reassessed by management at every balance sheet date. Liabilities are recorded for income tax positions that are determined by management as more likely than not to result in additional taxes being levied if the positions were to be challenged by the tax authorities.

The assessment is based on the interpretation of tax laws that have been enacted or substantively enacted by the balance sheet date and any known court or other rulings on such issues. Liabilities for penalties, interest and taxes other than on income are recognised based on management's best estimate of the expenditure required to settle the obligations at the balance sheet date.

### 2.18 Revenue Recognition

Revenue is income arising in the course of the Group's ordinary activities. Revenue is recognised in the amount of transaction price. Transaction price is the amount of consideration to which the Group expects to be entitled in exchange for transferring control over promised goods or services to a customer, excluding the amounts collected on behalf of third parties.

**2 Significant Accounting Policies (Continued)**

**2.18. Revenue Recognition (Continued)**

The Group recognizes revenues from the following major sources:
- Rental and similar income from investment property
- Construction revenues and
- Other revenues from sale of services.

Rental and similar income from investment property includes rental income from operating leases, service charges and management charges from properties.

Rental income is recognised on a straight-line basis over the lease term. When the Group provides incentives to its tenants, the cost of incentives is recognised over the lease term, on a straight-line basis, as a reduction of rental income. This applies to discounted rent periods and stepped rents. The resulting receivable is recognised within non–current assets or trade and other receivables depending on expected collection pattern. In determining the fair value of the related investment property, the Group does not double-count assets; the fair value of such investment property excludes accrued operating lease income because it is recognised as a separate asset. The contingent payments under lease agreements depending on the agreed level of sales turnover of tenants are recognized as income in the period when earned because the Group is unable to reliably estimate the future sales turnover of tenants in order to be able to recognise such expected contingent rents on a straight-line basis over the lease term.

Sales of services and management charges are recognised in the reporting period in which the services are rendered. Sales are shown net of VAT and discounts. When the Group is acting as an agent, the commission rather than gross income is recorded as revenue.

The Group does not expect to have any contracts where the period between the transfer of the promised goods or services to the customer and payment by the customer exceeds one year. As a consequence, the Group does not adjust any of the transaction prices for the time value of money.

The Group constructs properties under both long-term and short-term contracts with customers. Under the terms of the long-term contracts, the Group is usually contractually restricted from redirecting the properties to another customer and has an enforceable right to payment for work done. Revenue from construction of properties is therefore recognised over time on a cost-to-cost method, i.e. based on the proportion of contract costs incurred for work performed to date relative to the estimated total contract costs. Management considers that this input method is an appropriate measure of the progress towards complete satisfaction of these performance obligations under IFRS 15. In case of short-term contracts with customers the Group performs the analysis of agreed conditions and revenue is recognized either over time or at a point in time when the subject of contract is delivered.

The Group becomes entitled to invoice customers for construction of properties based on a payment schedule. If the services rendered by the Group exceed the payment, a contract asset is recognised. If the payments exceed the services rendered, a contract liability is recognised. It is presumed that there is no significant financing component in construction contracts with customers as the period between the recognition of revenue under the cost-to-cost method and the milestone payment is always less than one year.

Interest income is recognised on a time-proportion basis using the effective interest method.

**2.19 Employee Benefits**

Wages, salaries, contributions to the state and private pension and social insurance funds, paid annual leave and sick leave, bonuses, and non-monetary benefits (such as health services and kindergarten services) are accrued in the year in which the associated services are rendered by the employees of the Group.

Certain senior managers are entitled to obtain payments from the Group's shareholders based on the net asset value of the Group. As the obligation was incurred by shareholders and not by the Group, and is unrelated to the entity's share price, the Group did not recognise these employee benefits as its expenses in profit or loss.

**2.20 Other Operating Expenses**

Expenses include marketing, rental expenses, legal, accounting, auditing and other professional fees. They are recognised in profit or loss in the period in which they are incurred (on an accruals basis).

## 2 Significant Accounting Policies (Continued)

### 2.21 Non-current Assets Classified as Held for Sale

Non-current assets and disposal groups, which may include both non-current and current assets, are classified in the statement of financial position as 'non-current assets held for sale' if their carrying amount will be recovered principally through a sale transaction, including loss of control of a subsidiary holding the assets, within twelve months after the end of the reporting period. Assets are reclassified when all of the following conditions are met: (a) the assets are available for immediate sale in their present condition; (b) the Group's management approved and initiated an active programme to locate a buyer; (c) the assets are actively marketed for sale at a reasonable price; (d) the sale is expected within one year and (e) it is unlikely that significant changes to the plan to sell will be made or that the plan will be withdrawn. Non-current assets or disposal groups classified as held for sale in the current period's statement of financial position are not reclassified or re-presented in the comparative statement of financial position to reflect the classification at the end of the current period.

A disposal group is a group of assets (current or non-current) to be disposed of, by sale or otherwise, together as a group in a single transaction, and liabilities directly associated with those assets that will be transferred in the transaction. Non-current assets are assets that include amounts expected to be recovered or collected more than twelve months after the end of the reporting period. If reclassification is required, both the current and non-current portions of an asset are reclassified. Held for sale disposal groups as a whole are measured at the lower of their carrying amount and fair value less costs to sell.

Liabilities directly associated with disposal groups that will be transferred in the disposal transaction are reclassified and presented separately in the statement of financial position.

### 2.22 Operating Segments

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker is the person or group that allocates resources to and assesses the performance of the operating segments of an entity. The Group has determined that its chief operating decision-maker is the Board of Directors of the Company.

## 3 Critical Accounting Estimates and Judgements in Applying Accounting Policies

The Group makes estimates and assumptions that affect the amounts recognised in the consolidated financial statements. Estimates and judgements are continually evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Management also makes certain judgements, apart from those involving estimations, in the process of applying the accounting policies. Judgements that have the most significant effect on the amounts recognised in the consolidated financial statements and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities within the next financial year include:

***Valuation of investment properties***. The fair value estimates of 89.3% of investment properties (31 December 2017: 88.7%) were determined by the Group having received valuation advice from international valuation companies which have experience in valuing properties of similar location and characteristics. The remaining properties were valued on a basis of broker quotes or management estimates (which are based on letter of intent purchase price submitted by prospective bidders). The fair value of investment properties is estimated based on the income capitalisation method, where the value is estimated from the expected future benefits to be generated by the property in the form of rental income streams. The method considers net income generated by existing or comparable property, capitalised to determine the value for property which is subject to the valuation. The principal assumptions underlying the estimation of the fair value are those related to: the receipt of contractual rentals; expected future market rentals; void periods; re-letting incentives; maintenance requirements; appropriate discount rates; and in case of properties under development, future constructions, finance and letting costs and market developers' profits. These valuations are regularly compared to actual market data and actual transactions by the Group and those reported by the market. For further details refer to Note 31.

The principal assumptions made, and the impact on the aggregate valuations of reasonably possible changes for United Kingdom in these assumptions, are as follows:

- Rental charges per square meter and month have been calculated for each property on a basis of actually contracted and prevailing market rates as estimated by the qualified valuers. Should the rental levels increase or decrease by 10% the carrying value of investment property would be higher or lower by EUR 17.8 million (2017: EUR 25.7 million).

- The income capitalisation rate (yield) across the portfolio was assumed to be 4.5% to 4.75% or 4.67% on average (2017: from 4.65% to 5.0%, or 4.7% on average). Should this capitalisation rate increase / decrease by 25 basis points, the carrying value of the investment property would be EUR 23.6 million lower or EUR 26.3 million higher (2017: EUR 8 million lower or EUR 9 million higher).

## 3 Critical Accounting Estimates and Judgements in Applying Accounting Policies (Continued)

The principal assumptions made, and the impact on the aggregate valuations of reasonably possible changes for CEE region in these assumptions, are as follows:

- Rental charges per square meter and month have been calculated for each property on a basis of actually contracted and prevailing market rates as estimated by the qualified valuers. Should the rental levels increase or decrease by 10% the carrying value of investment property would be higher or lower by EUR 34.0 million (2017: EUR 31.9 million)

- The income capitalisation rate (yield) across the portfolio was assumed to be from 4.76% to 8.5%, or 5.92% on average (2017: from 5% to 8.5%, or 6.2% on average). Should this capitalisation rate increase / decrease by 25 basis points, the carrying value of the investment property would be EUR 59.9 million lower or EUR 65.2 million higher (2017: EUR 51.9 million lower or EUR 56.3 million higher).

***Income taxes.*** The Group is subject to income taxes in different jurisdictions. Significant estimates are required in determining the provision for income taxes, in particular in the area of transfer pricing. There are some transactions and calculations for which the ultimate tax determination is uncertain, therefore tax liability is recognised for exposures deemed probable. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

The calculation of deferred tax on investment properties is not based on the fact that they might be realised through a share deal but through an asset deal. As a result of the Group structure, the potential capital gain may be exempted from any tax in case of share deal if certain conditions are met and hence the accumulated deferred tax liabilities may be recognized as a gain upon disposal depending on the outcome of negotiations with future buyers.

***Initial recognition of related party transactions.*** In the normal course of business, the Group enters into transactions with its related parties. IFRS 9 requires initial recognition of financial instruments based on their fair values. Judgement is applied in determining if transactions are priced at market or non-market interest rates, where there is no active market for such transactions. The basis for judgement is pricing for similar types of transactions with unrelated parties and effective interest rate analyses. Terms and conditions of related party balances are disclosed in Note 7.

***Expected credit losses (ECL)measurement.*** Measurement of ECL is a significant estimate that involves determination methodology, models and data inputs. Details of ECL measurement methodology are disclosed in Note 29. The following components have a major impact on credit loss allowance: definition of default and SICR, as well as models of macro-economic scenarios. The Group regularly reviews and validates the models and inputs to the models to reduce any differences between expected credit loss estimates and actual credit loss experience.

In line with IFRS 9 the Group use practical expedient for trade and other receivables and calculates ECL using a provision matrix based on its historical credit loss experience adjusted for all reasonable and supportable information that is available without undue cost or effort.

***Significant increase in credit risk ("SICR").*** In order to determine whether there has been a significant increase in credit risk, the Group compares the risk of a default occurring over the life of a financial instrument at the end of the reporting date with the risk of default at the date of initial recognition. The assessment considers relative increase in credit risk rather than achieving a specific level of credit risk at the end of the reporting period. The Group considers all reasonable and supportable forward-looking information available without undue cost and effort. The Group identifies behavioural indicators of increases in credit risk prior to delinquency and incorporated appropriate forward looking information into the credit risk assessment, either at an individual instrument, or on a portfolio level. Refer to Note 29.

***Fair value of investment in associate.*** In February 2018 the Group acquired a non-controlling share in The Cambridge Incubator, LLC, a Delaware limited liability company. Since the investment is held by entity that is a venture capital organisation, the Group elected to measure that investment in associate at fair value through profit or loss. Management estimated fair value of investment based on the projected cash flows and a discount rate of 12.0% based on the market interest rate, current market returns and cost of capital of similar companies. Should the estimated interest rate be higher or lower by 0.10% from management's estimate, the fair value of investment in associate would be approximately EUR 0.6 million lower or higher.

**3 Critical Accounting Estimates and Judgements in Applying Accounting Policies (Continued)**

***Forward sale of investment property.*** On 15 July 2016, the Group concluded a forward sale of its 33 Central project, London, UK. The Group originally aimed to hold the project for an unspecified period of time to earn rental income, however, since it was presented with a favourable offer from a reputable bank, the Group decided to conclude a forward sale arrangement with the bank. The Group applied professional judgement in determining (a) whether it lost control over the property holding entity TRITRI House S.à r.l. under the forward sale arrangement and (b) subsequent accounting up to the completion of the property.

The Group concluded that it lost control over TRITRI House S.à r.l. because the contractual arrangement limits the power of the Group over this investee since any matters that are not pre-determined in the agreements require approval of the buyer.

While the contracts state that the buyer should not unreasonably delay, withhold, or make subject to condition its consent (with e.g. amending any contracts of TRITRI House S.à r.l. or disposing or acquiring any asset by TRITRI House S.à r.l.), management consider that this is a soft condition and finding a reasonable cause for withholding a consent will be possible for the buyer for decisions about substantive activities, considering the purpose of the arrangement. The most relevant activities affecting returns of TRITRI House S.à r.l. are to lease or sell the property once completed and these matters are controlled by the buyer.

An advance of 10% of the headline price was paid upfront. The remainder of the headline price was paid after completion of the property in December 2017.

The economic substance of the transaction is that the Group ceased owning the property development project and instead agreed with the buyer a construction contract to complete and deliver a building to the buyer's specifications. Management considered guidance in IFRIC 15, *Agreements for the Construction of Real Estate*, in determining that the above arrangement to complete the building is a construction contract in terms of IFRS guidance. This required application of professional judgement, but considering that (a) significant costs were required to complete the building that was under development as of 15 July 2016 and (b) the contracts specify in detail the base building definition specifically negotiated with the bank prior to 15 July 2016, management concluded that the conditions in IFRIC 15 for construction contracts accounting were met, eg because the purchaser was able to specify major changes to the construction in progress rather than just minor variations to the design.

On 15 July 2016, upon conclusion of the transaction, the Group recognised amounts due from customers for contract work of EUR 216.6 million and derecognised the fair value of investment property under development. After 15 July 2016, the Group recognised construction contract revenues on a percentage of completion basis. In December 2017 the Group completed the transaction by handing-over the 33 Central, UK, to Wells Fargo. The Group recognized total contract revenues of EUR 86.2 million over time until completion of the transaction.

**4 Adoption of New or Revised Standards and Interpretations**

The Group has applied the following standards and amendments for the first time for its reporting period commencing on 1 January 2018:

- IFRS 15 Revenue from Contracts with Customers (issued on 28 May 2014) including amendments to IFRS 15: Effective date of IFRS 15 (issued on 11 September 2015 and effective for annual periods beginning on or after 1 January 2018).
- Clarifications to IFRS 15 Revenue from Contracts with Customers (issued on 12 April 2016 and effective for annual periods beginning on or after 1 January 2018).
- Amendments to IAS 40: Transfer of Investment Property (issued on 8 December 2016 and effective for annual periods beginning on or after 1 January 2018).
- Amendments to IFRS 2: Classification and Measurement of Share-based Payment Transactions (issued on 20 June 2016 and effective for annual periods beginning on or after 1 January 2018).
- IFRIC 22 Foreign Currency Transactions and Advance Consideration (issued on 8 December 2016 and effective for annual periods beginning on or after 1 January 2018).
- Annual Improvements to IFRS Standards 2014-2016 Cycle (issued on 8 December 2016 and effective for annual periods beginning on or after 1 January 2018).

The above standards and amendments did not have any material impact on the Group.

- IFRS 9 Financial Instruments (issued on 24 July 2014 and effective for annual periods beginning on or after 1 January 2018).

This Standard replaces IAS 39, Financial Instruments: Recognition and Measurement.

**4 Adoption of New or Revised Standards and Interpretations (Continued)**

A financial asset is measured at amortised cost if the following two conditions are met. The assets are held within a business model whose objective is to hold assets in order to collect contractual cash flows; and its contractual terms give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal outstanding.

The Group does not hold debt instruments at fair value through other comprehensive income.

The impairment model in IFRS 9 replaces the 'incurred loss' model in IAS 39 with a forward-looking 'expected credit loss' ('ECL') model, which means that a loss event will no longer need to occur before an impairment allowance is recognised. The new impairment model will apply to financial assets measured at amortised cost except for investments in equity instruments.

On adoption of IFRS 9, the Group did not recognize any significant changes in impairment allowances compared to IAS 39.

The standard did not affect the measurement of Group's financial instruments held as at 1 January 2018.

Receivables and loans as well as trade and other receivables that were measured at amortised cost under IAS 39 as at 31 December 2017, are also measured at amortised cost under IFRS 9. The financial assets at fair value through profit and loss, and the investment in joint venture which were measured at FVTPL under IAS 39, are also measured at FVTPL under IFRS 9.

All classes of cash and cash equivalents as disclosed in Note 15 were reclassified from loans and receivables ("L&R") measurement category under IAS 39 to AC measurement category under IFRS 9 at the adoption date of the standard. The ECLs for cash and cash equivalents balances were insignificant.

At 31 December 2017, all of the Group's financial liabilities except for derivatives were carried at AC. The derivatives belonged to the FVTPL measurement category under IAS 39. There were no changes to the classification and measurement of financial liabilities when adopting IFRS 9.

The revised requirements of the IFRS 7, Financial Instruments: Disclosures, have only been applied to the current period. The comparative period disclosures repeat those disclosures made in the prior year, because the Group adopted IFRS 9 using the modified retrospective method from 1 January 2018.

Management performed an assessment of the impact of IFRS 15 for all of its revenue streams individually. Based on the assessment, there has been no significant impact to the revenue recognition in the current or comparative periods identified. Certain insignificant changes in presentation have been made in the Notes due to new categories introduced as a result of adopting new standard. Refer to Note 13 and 19.

**5 New Accounting Pronouncements**

Certain new accounting standards and interpretations have been published that are mandatory for reporting period commencing on 1 January 2019 and have not been early adopted by the Group:

***IFRS 16 Leases (issued on 13 January 2016 and effective for annual periods beginning on or after 1 January 2019).*** The new standard sets out the principles for the recognition, measurement, presentation and disclosure of leases. All leases result in the lessee obtaining the right to use an asset at the start of the lease and, if lease payments are made over time, also obtaining financing. Accordingly, IFRS 16 eliminates the classification of leases as either operating leases or finance leases as is required by IAS 17 and, instead, introduces a single lessee accounting model. Lessees will be required to recognise: (a) assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value; and (b) depreciation of lease assets separately from interest on lease liabilities in the statement of profit or loss and other comprehensive income. IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently.

***The impact of IFRS 16 on financial statements:***
The Group has created a project team that has reviewed the Group's lease contracts which were valid throughout the year 2018 and onwards, considering the new lease accounting rules in IFRS 16.

As at 1 January 2019, the Group expects to recognise a right-of-use asset classified as investment property of approximately EUR 28.2 million, and a right-of-use asset classified as property, plant and equipment of approximately EUR 8.4 million, and a lease liability of EUR 36.6 million. Total net assets will not change, net current assets will be lower by EUR 4.5 million as a result of the presentation of a portion of the lease liability as a short-term liability.

## 5 New Accounting Pronouncements (Continued)

The Company expects the net profit after tax to be higher by approximately EUR 1.3 million as a result of adoption of the new accounting policies for leases. It is expected that adjusted operating profit will increase by approximately EUR 3.2 million, since interest on the lease liability is presented in finance cost and the right-of-use assets classified as investment property will have zero depreciation in contrast with previously recognised rent expense which was included in the operating profit before 1 January 2019. Effects from revaluation of the right-of-use asset has not been incorporated in the above analysis of the impact on net profit and adjusted operating income since the effects of the revaluation of the right-of-use assets as at 31 December 2019 cannot be reliably estimated.

Cash flows from operating activities will increase and cash flows from financial activities will decrease by approximately EUR 4.5 million since repayments of principal as parts of a lease liability are classified as cash flows from financing activities.

The following table shows comparison reconciliation of future committed operating leases payments and the lease liability:

| | 1 January 2019 |
|---|---|
| Perpetual usufruct in Poland that will be treated as land leases from 1 January 2019[1] (Note 28) | 68.1 |
| Finance lease liability (Note 18) | 31.2 |
| Other operating lease commitments (Note 28) | 31.8 |
| Total lease commitment | 131.1 |
| Effect of discounting future lease payments to present value at incremental borrowing interest rate | (63.3) |
| **Total lease liability** | **67.8** |

[1] Under an agreement with the local government unit in Poland the right to use the landplot is transferred to the Group up until year 2089 in exchange for remuneration in the form of fees that are subject to indexation. The agreement deals with the use of the identified asset (a specific landplot), in which the perpetual usufructuary has the right to obtain substantially all economic benefits and the right to decide on the useage. Considering these facts, the right of perpetual usufruct of landplot meets the definition of a lease in the new standard IFRS 16. The lease liability is based on the current level of the fees at 1 January 2019. The contingent rent is expensed when incurred as required by the existing standard IAS 17, that is effective until 1 January 2019.

In contrast to lessee accounting, the IFRS 16 lessor accounting requirements remain largely unchanged from IAS 17, and continue to require a lessor to classify a lease either as an operating lease or a finance lease. Therefore, the Company does not expect material impact on the financial statements.

The company will apply the new standard from its mandatory effective date of 1 January 2019.

The company intends to apply a simplified approach to transition and will not restate comparative information for the year preceding the date of first adoption. Assets with a right of use will be measured at the amount of the lease liability at the date of initial application (adjusted for the amount of any prepaid or accrued lease payments).

The following standards, interpretations and amendments are not expected to have any material impact on the Group's consolidated financial statements:

- Amendments to IFRS 9: Prepayments Features with Negative Compensation (issued on 12 October 2017 and effective for annual periods beginning on or after 1 January 2019).
- IFRS 17 Insurance Contracts* (issued on 18 May 2017 and effective for annual periods beginning on or after 1 January 2021). IFRS 17 replaces IFRS 4, which has given companies dispensation to carry on accounting for insurance contracts using existing practices.
- IFRIC 23 Uncertainty over Income Tax Treatments (issued on 7 June 2017 and effective for annual periods beginning on or after 1 January 2019).
- Amendments to IAS 28: Long-term Interests in Associates and Joint Ventures (issued on 12 October 2017 and effective for annual periods beginning on or after 1 January 2019).
- Annual Improvements to IFRS Standards 2015-2017 Cycle* (issued on 12 December 2017 and effective for annual periods beginning on or after 1 January 2019).

**5 New Accounting Pronouncements (Continued)**

- Amendments to IAS 19: Plan Amendment, Curtailment or Settlement* (issued on 7 February 2018 and effective for annual periods beginning on or after 1 January 2019).

- Amendments to References to the Conceptual Framework in IFRS Standards* (issued on 29 March 2018 and effective for annual periods beginning on or after 1 January 2020).

- Amendments to IFRS 3 Business Combinations* (issued on 22 October 2018 and effective for annual periods beginning on or after 1 January 2020).

- Amendments to IAS 1 and IAS 8: Definition of Materiality* (issued on 31 October 2018 and effective for annual periods beginning on or after 1 January 2020).

* These new standards, amendments and interpretations have not been endorsed by the European Union yet.

## 6 Segment Analysis

Operating segments are components that engage in business activities that may earn revenues or incur expenses, whose operating results are regularly reviewed by the chief operating decision maker (CODM) and for which discrete financial information is available. The CODM is the person or group of persons who allocates resources and assesses the performance for the entity. The functions of CODM are performed by the Board of Directors of the Company.

### *(a) Description of products and services from which each reportable segment derives its revenue*

The Group is managing its business operations on the basis of the following segments:

*Asset Management* – representing management of income generating properties (properties in use or vacant) developed by the Group or acquired with no major development expected.

*Development in Realisation* – representing management of activities connected with construction, marketing and leasing activities. A property is reclassified from Development in Realisation to Asset Management at the end of the accounting period in which the property has been commissioned for its intended use and a final building approval has been carried out. This means that the revenues, costs, including the revaluation gains or losses related to the year when property reaches the described criteria, are included within Development in Realisation, whereas the completed property is shown on the balance sheet as of the last day of such period as property "in use or vacant" under the Asset Management business.

*Development in Preparation* – representing management of activities including acquisition of land and concept design and permitting until the construction commencement. A property is reclassified from Development in Preparation to Development in Realisation at the end of the accounting period in which the construction of the property started. The revenues, costs, including the revaluation gains or losses related to the year when the construction of the property started, are included within Development in Preparation, whereas the property is shown on the balance sheet as of the last day of such period as property under the Development in Realisation.

*Investment Management* – representing management of activities related to management of third party investment in properties managed by the Group.

*Non-Core* – representing management of land bank items designated as Non-Core properties of the Group.

*HUB HUB* – representing management of activities related to management of Group's co-working platform, providing flexible work space and business events.

*Cash* – representing management of entities that are set up for concentration of cash for its further investments and providing loans to other entities within consolidated group.

### *(b) Factors that management used to identify the reportable segments*

The Group's segments are strategic business units that focus on different activities of the Group. They are managed separately because each business unit requires different skill sets, product and market, procurement and human resource strategies.

Segment financial information reviewed by the Board of Directors includes rental and similar income from Asset Management business less directly attributable costs associated with properties that equal to Net Operating Income (NOI). The Board of Directors also reviews the change in fair value of properties. With respect to Development in Preparation segment, the Board reviews acquisition opportunities and submits bids for land and properties and oversees property design, permitting and zoning. With respect to Development in Realisation segment, the Board reviews construction budgets and actual construction costs and delivery schedules as well as property marketing and letting activities at the end of the development cycle. With respect to Investment Management segment, Management reviews opportunities for transfer of further subsidiaries into this segment that would contribute to development and extend of portfolio offered for external investors.

### *(c) Measurement of operating segment profit or loss, assets and liabilities*

The Board reviews financial information prepared based on International Financial Reporting Standards as adopted by the European Union. The Board evaluates performance of each segment based on profit before tax and net assets value. The Group allocates costs to segments based on specific identification of entities that belong to particular segments. Direct operating expenses arising from investment property are allocated on a basis of appropriate cost driver (e.g. MWh of electricity spent for electricity related costs). Transactions of the subsidiaries are allocated to relevant segment based on the substance of the transactions (e.g. expenses of subsidiary that supply utilities to other subsidiaries are allocated to segment for which the utility was purchased) unless it is not possible to allocate them to explicit segment category and they remain unallocated.

## 6 Segment Analysis (Continued)

### *(d) Information about reportable segment profit or loss, assets and liabilities*

The segment profit and loss information for the year ended 31 December 2018 is as follows:

| *In millions of EUR* | Note | Asset Management | Development in Realisation | Development in Preparation | Investment Management | Non Core | HUB HUB | Cash | Unallocated | Total |
|---|---|---|---|---|---|---|---|---|---|---|
| Rental income from investment property | 20 | | | | | | | | | |
| - Office | | 35.6 | 2.2 | 0.9 | - | - | 1.3 | - | - | **40.0** |
| - Retail | | 1.4 | - | - | - | - | - | - | - | **1.4** |
| - Industrial | | - | - | - | - | - | - | - | - | **-** |
| | | **37.0** | **2.2** | **0.9** | **-** | **-** | **1.3** | **-** | **-** | **41.4** |
| Service charges income from investment properties | 20 | | | | | | | | | |
| - Office | | 14.4 | 0.1 | 0.4 | - | - | - | - | - | **14.9** |
| - Retail | | 0.6 | - | - | - | 0.1 | - | - | - | **0.7** |
| - Industrial | | - | - | - | - | - | - | - | - | **-** |
| | | **15.0** | **0.1** | **0.4** | **-** | **0.1** | **-** | **-** | **-** | **15.6** |
| Management charges income from investment properties | 20 | | | | | | | | | |
| - Office | | 3.8 | - | - | - | - | 0.6 | - | - | **4.4** |
| - Retail | | 0.3 | - | - | - | - | - | - | - | **0.3** |
| - Industrial | | - | 0.4 | - | - | - | - | - | - | **0.4** |
| | | **4.1** | **0.4** | **-** | **-** | **-** | **0.6** | **-** | **-** | **5.1** |
| Direct operating expenses arising from investment property | 21 | | | | | | | | | |
| - Office | | (20.6) | - | (0.7) | (0.1) | - | (2.2) | - | - | **(23.6)** |
| - Retail | | (0.3) | - | - | - | - | - | - | - | **(0.3)** |
| - Industrial | | - | - | - | - | (0.2) | - | - | - | **(0.2)** |
| | | **(20.9)** | **-** | **(0.7)** | **(0.1)** | **(0.2)** | **(2.2)** | **-** | **-** | **(24.1)** |
| **Net operating income from investment property** | | **35.2** | **2.7** | **0.6** | **(0.1)** | **(0.1)** | **(0.3)** | **-** | **-** | **38.0** |
| Revaluation gain/(loss) on investment property | 9 | | | | | | | | | |
| - Office | | 7.5 | 176.8 | 2.3 | - | - | 0.1 | - | - | **186.7** |
| - Retail | | - | 8.7 | - | - | (0.1) | - | - | - | **8.6** |
| - Industrial | | - | - | (0.2) | - | (0.3) | - | - | - | **(0.5)** |
| Share of profit or loss of joint ventures | 10 | 10.0 | - | - | - | - | - | - | - | **10.0** |
| | | **17.5** | **185.5** | **2.1** | **-** | **(0.4)** | **0.1** | **-** | **-** | **204.8** |
| Interest expense - third parties | | **(8.0)** | **(21.0)** | **(2.5)** | **-** | **(0.1)** | **-** | **-** | **(1.6)** | **(33.2)** |
| | | **44.7** | **167.2** | **0.2** | **(0.1)** | **(0.6)** | **(0.2)** | - | **(1.6)** | **209.6** |

## 6 Segment Analysis (Continued)

### *(d) Information about reportable segment profit or loss, assets and liabilities (Continued)*

The segment profit and loss information for the year ended 31 December 2018 is as follows:

| *In millions of EUR* | Note | Asset Management | Development in Realisation | Development in Preparation | Investment Management | Non Core | HUB HUB | Cash | Unallocated | Total |
|---|---|---|---|---|---|---|---|---|---|---|
| Investment management fee | | - | - | - | 1.6 | - | - | - | - | **1.6** |
| Revenue from construction contracts | 21 | 6.5 | 10.9 | - | - | - | 2.3 | - | 2.2 | **21.9** |
| Construction contract costs | | (8.9) | (11.2) | - | - | - | - | - | (2.2) | **(22.3)** |
| Other expenses/revenues | | 15.5 | (40.6) | (7.3) | (1.4) | (0.8) | (3.3) | (1.8) | (19.5) | **(59.2)** |
| **Profit before income tax** | | **57.8** | **126.3** | **(7.1)** | **0.1** | **(1.4)** | **(1.2)** | **(1.8)** | **(21.1)** | **151.6** |
| Purchases of investment property | 9 | 8.1 | 83.1 | 66.6 | - | - | - | - | - | **157.8** |
| Construction costs related to investment property | 9 | 63.4 | 142.3 | 9.6 | - | 0.4 | 7.7 | - | - | **223.4** |
| Construction costs related to joint ventures | | 8.9 | - | - | - | - | - | - | - | **8.9** |
| Construction costs related to contruction work | | - | 11.2 | - | - | - | - | - | 2.2 | **13.4** |
| **Total investments** | | **80.4** | **236.6** | **76.2** | **-** | **0.4** | **7.7** | **-** | **2.2** | **403.5** |
| Sale of investment property | 25 | (385.3) | - | - | - | - | - | - | - | **(385.3)** |
| **Total divestments** | | **(385.3)** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **(385.3)** |

## 6 Segment Analysis (Continued)

The segment information on segment assets and liabilities as of 31 December 2018 is as follows:

| *In millions of EUR* | Note | Asset Management | Development in Realisation | Development in Preparation | Investment Management | Non Core | HUB HUB | Cash | Unallocated | Total |
|---|---|---|---|---|---|---|---|---|---|---|
| Investment property | 9 | | | | | | | | | |
| - Office | | 616.8 | 663.2 | 227.1 | - | - | 8.2 | - | - | **1,515.3** |
| - Retail | | - | 120.4 | - | - | - | - | - | - | **120.4** |
| - Industrial | | - | - | - | - | 30.7 | - | - | - | **30.7** |
| - Investment property held for sale | 14 | 224.1 | - | 13.3 | - | 5.0 | - | - | - | **242.4** |
| Investment in joint ventures | 10 | 54.5 | - | - | - | - | - | - | - | **54.5** |
| Deferred tax asset | 26 | - | - | - | - | - | - | - | 11.8 | **11.8** |
| Other unallocated assets | | - | - | - | - | - | - | 172.3 | 202.5 | **374.8** |
| **Total assets** | | **895.4** | **783.6** | **240.4** | **-** | **35.7** | **8.2** | **172.3** | **214.3** | **2,349.9** |
| Borrowings | | | | | | | | | | |
| - non-current | 18 | (165.7) | (376.8) | (37.2) | - | - | - | - | (34.7) | **(614.4)** |
| - current | 18, 7 | (5.0) | (57.7) | (7.3) | - | - | - | - | (63.2) | **(133.2)** |
| - included as held for sale | 14 | (143.9) | - | - | - | - | - | - | - | **(143.9)** |
| Deferred tax liability | 26 | - | - | - | - | - | - | - | (79.3) | **(79.3)** |
| Other unallocated liabilities | | - | - | - | - | - | - | - | (121.0) | **(121.0)** |
| **Total liabilities** | | **(314.6)** | **(434.5)** | **(44.5)** | **-** | **-** | **-** | **-** | **(298.2)** | **(1,091.8)** |
| **Segment net asset value** | | **580.8** | **349.1** | **195.9** | **-** | **35.7** | **8.2** | **172.3** | **(83.9)** | **1,258.1** |

## 6 Segment Analysis (Continued)

***Geographical information.*** Revenue, expenses, non-current assets and capital expenditures analysed by country for the year ended 31 December 2018 are as follows:

| *In millions of EUR* | **Note** | **Slovakia** | **Czech Republic** | **Poland** | **Hungary** | **UK** | **Germany** | **Other countries** | **Unallocated** | **Total** |
|---|---|---|---|---|---|---|---|---|---|---|
| Rental income | 20 | 17.0 | 3.4 | 11.5 | 0.3 | 9.2 | - | - | - | **41.4** |
| Service charges | 20 | 9.0 | 1.1 | 2.8 | - | 2.7 | - | - | - | **15.6** |
| Management charges | 20 | 4.0 | 1.2 | 0.2 | - | (0.3) | - | - | - | **5.1** |
| Direct operating expenses | 21 | (13.2) | (1.4) | (4.1) | (0.2) | (4.9) | (0.2) | (0.1) | - | **(24.1)** |
| **Net operating income from investment properties** | | **16.8** | **4.3** | **10.4** | **0.1** | **6.7** | **(0.2)** | **(0.1)** | **-** | **38.0** |
| Revaluation gain | 9 | 39.9 | 5.3 | 81.9 | 19.8 | 47.9 | - | - | - | **194.8** |
| Revenue from construction contracts | 21 | 3.6 | 5.4 | 11.9 | 0.1 | 0.9 | - | - | - | **21.9** |
| Construction contract costs | | (3.8) | (5.2) | (12.9) | - | (0.4) | - | - | - | **(22.3)** |
| Share of profit or loss of joint ventures | 10 | - | - | 10.0 | - | - | - | - | - | **10.0** |
| Interest expense | | (16.5) | (3.7) | (9.9) | (1.3) | (1.4) | (0.1) | (0.3) | - | **(33.2)** |
| Investment management fee | | - | - | - | - | - | - | 1.6 | - | **1.6** |
| Other (expenses)/revenues | | (25.3) | 1.4 | (0.8) | (7.0) | (5.0) | (1.4) | (21.1) | - | **(59.2)** |
| **Profit before tax** | | **14.7** | **7.5** | **90.6** | **11.7** | **48.7** | **(1.7)** | **(19.9)** | **-** | **151.6** |
| Investment property in use or vacant | 9 | 132.4 | 1.5 | 74.7 | 11.0 | 403.2 | - | - | - | **622.8** |
| Investment property under development | 9 | 276.7 | 62.0 | 447.8 | 105.0 | 59.9 | 92.2 | - | - | **1,043.6** |
| Investment in joint venture | 10 | 2.3 | - | 52.2 | - | - | - | - | - | **54.5** |
| Other non-current assets | | 3.5 | 1.2 | 19.3 | 0.6 | 3.8 | - | 52.0 | 12.0 | **92.4** |
| **Total non-current assets** | | **414.9** | **64.7** | **594.0** | **116.6** | **466.9** | **92.2** | **52.0** | **12.0** | **1,813.3** |
| Non-current assets classified as held-for-sale | 14 | 257.4 | - | - | 13.8 | - | - | - | - | **271.2** |
| **Total non-current assets and assets held for sale** | | **672.3** | **64.7** | **594.0** | **130.4** | **466.9** | **92.2** | **52.0** | **12.0** | **2,084.5** |
| Cash and cash equivalents | 15 | 39.2 | 4.0 | 52.3 | 9.8 | 11.9 | 7.3 | 47.8 | - | **172.3** |
| Other unallocated assets | | - | - | - | - | - | - | - | 93.1 | **93.1** |
| **Total assets** | | **711.5** | **68.7** | **646.3** | **140.2** | **478.8** | **99.5** | **99.8** | **105.1** | **2,349.9** |

## 6 Segment Analysis (Continued)

***Geographical information.*** Revenue, expenses, non-current assets and capital expenditures analysed by country for the year ended 31 December 2018 are as follows:

| *In millions of EUR* | Note | Slovakia | Czech Republic | Poland | Hungary | UK | Germany | Other countries | Unallocated | Total |
|---|---|---|---|---|---|---|---|---|---|---|
| Borrowings | 18 | | | | | | | | | |
| - non-current | | (300.9) | (54.3) | (174.5) | (5.5) | (79.2) | - | - | - | **(614.4)** |
| - current | | (81.2) | (8.0) | (2.8) | (0.2) | (0.3) | (22.2) | (18.5) | - | **(133.2)** |
| Liabilities directly associated with non-current assets classified as held for sale | 14 | (158.2) | - | - | (0.6) | - | - | - | - | **(158.8)** |
| Deferred income tax liability | 26 | - | - | - | - | - | - | - | (79.3) | **(79.3)** |
| Other unallocated liabilities | | - | - | - | - | - | - | - | (106.1) | **(106.1)** |
| **Total liabilities** | | **(540.3)** | **(62.3)** | **(177.3)** | **(6.3)** | **(79.5)** | **(22.2)** | **(18.5)** | **(185.4)** | **(1,091.8)** |
| **Net asset value** | | **171.2** | **6.4** | **469.0** | **133.9** | **399.3** | **77.3** | **81.3** | **(80.3)** | **1,258.1** |
| | | | | | | | | | | |
| Purchases of investment property (including non-cash) | 9 | - | - | 3.6 | 8.1 | 58.7 | 87.4 | - | - | **157.8** |
| Construction costs related to investment property | 9 | 95.9 | 4.7 | 66.0 | 24.0 | 28.1 | 4.7 | - | - | **223.4** |
| Construction costs related to joint ventures | | - | - | 8.9 | - | - | - | - | - | **8.9** |
| Construction costs related to contruction work | | 3.8 | 5.2 | 4.0 | - | 0.4 | - | - | - | **13.4** |
| **Total investments** | | **99.7** | **9.9** | **82.5** | **32.1** | **87.2** | **92.1** | **-** | **-** | **403.5** |
| Sale of investment property | 25 | - | (88.5) | (188.6) | - | (108.2) | - | - | - | **(385.3)** |
| **Total divestments** | | **-** | **(88.5)** | **(188.6)** | **-** | **(108.2)** | **-** | **-** | **-** | **(385.3)** |

## 6 Segment Analysis (Continued)

### *(d) Information about reportable segment profit or loss, assets and liabilities*

The segment profit and loss information for the year ended 31 December 2017 is as follows:

| *In millions of EUR* | Note | Asset Management | Development in Realisation | Development in Preparation | Investment Management | Non Core | Cash | Unallocated | Total |
|---|---|---|---|---|---|---|---|---|---|
| Rental and similar income from investment property | | | | | | | | | |
| - Office | | 36.5 | 1.3 | 1.2 | 15.2 | - | - | - | **54.2** |
| - Retail | | - | - | 1.7 | 0.6 | - | - | - | **2.3** |
| - Industrial | | 3.2 | 0.1 | - | - | 0.8 | - | - | **4.1** |
| | 20 | **39.7** | **1.4** | **2.9** | **15.8** | **0.8** | **-** | **-** | **60.6** |
| Direct operating expenses arising from investment property | | | | | | | | | |
| - Office | | (9.3) | (1.3) | (1.2) | (8.2) | - | - | - | **(20.0)** |
| - Retail | | - | - | (1.2) | - | - | - | - | **(1.2)** |
| - Industrial | | (0.3) | (0.2) | - | - | (0.2) | - | - | **(0.7)** |
| | 21 | **(9.6)** | **(1.5)** | **(2.4)** | **(8.2)** | **(0.2)** | **-** | **-** | **(21.9)** |
| **Net operating income from investment property** | | **30.1** | **(0.1)** | **0.5** | **7.6** | **0.6** | **-** | **-** | **38.7** |
| Revaluation gain/(loss) on investment property | | | | | | | | | |
| - Office | | 1.4 | 54.7 | 39.5 | - | (0.1) | - | - | **95.5** |
| - Retail | | - | 8.3 | (10.0) | - | 1.4 | - | - | **(0.3)** |
| - Industrial | | (0.6) | - | (1.6) | - | 2.2 | - | - | **-** |
| Subtotal | 9 | **0.8** | **63.0** | **27.9** | **-** | **3.5** | **-** | **-** | **95.2** |
| Share of profit or loss of joint ventures | 10 | 7.1 | - | - | - | - | - | - | **7.1** |
| Revaluation gain/(loss) on investment property, including joint ventures | | **7.9** | **63.0** | **27.9** | **-** | **3.5** | **-** | **-** | **102.3** |
| Interest expense | | (5.6) | (11.8) | (2.0) | (1.2) | - | - | (3.8) | **(24.4)** |
| Investment management fee | | - | - | - | 1.5 | - | - | - | **1.5** |
| Other (expenses)/ revenues | | (16.9) | (15.9) | (18.3) | 13.8 | (3.0) | (2.9) | 18.9 | **(24.3)** |
| **Profit before income tax** | | **15.5** | **35.2** | **8.1** | **21.7** | **1.1** | **(2.9)** | **15.1** | **93.8** |

## 6 Segment Analysis (Continued)

The segment information on segment assets and liabilities as of 31 December 2017 is as follows:

| *In millions of EUR* | Note | Asset Management | Development in Realisation | Development in Preparation | Investment Management | Non Core | Cash | Unallocated | Total |
|---|---|---|---|---|---|---|---|---|---|
| Investment property | 9 | | | | | | | | |
| - Office | | 425.0 | 482.7 | 260.4 | 120.6 | - | - | - | **1,288.7** |
| - Retail | | - | 75.0 | - | - | 7.9 | - | - | **82.9** |
| - Industrial | | - | 0.1 | - | - | 35.7 | - | - | **35.8** |
| - Investment property held for sale | 14 | 330.2 | - | 19.9 | - | - | - | - | **350.1** |
| Investment in joint ventures | 10 | 56.2 | - | - | - | - | - | - | **56.2** |
| Deferred tax asset | 26 | - | - | - | - | - | - | 16.9 | **16.9** |
| Other unallocated assets | | - | - | - | - | - | 261.4 | 202.8 | **464.2** |
| **Total assets** | | **811.4** | **557.8** | **280.3** | **120.6** | **43.6** | **261.4** | **219.7** | **2,294.8** |
| Borrowings | | | | | | | | | |
| - non-current | 18 | (103.3) | (387.0) | (47.6) | (61.0) | - | - | - | **(598.9)** |
| - current | 7, 18 | (19.5) | (2.6) | (3.5) | (2.5) | - | - | (54.0) | **(82.1)** |
| - included as held for sale | 14 | (212.0) | - | - | - | - | - | - | **(212.0)** |
| Deferred tax liability | 26 | - | - | - | - | - | - | (69.9) | **(69.9)** |
| Other unallocated liabilities | | - | - | - | - | - | - | (136.2) | **(136.2)** |
| **Total liabilities** | | **(334.8)** | **(389.6)** | **(51.1)** | **(63.5)** | **-** | **-** | **(260.1)** | **(1,099.1)** |
| **Segment net asset value** | | **476.6** | **168.2** | **229.2** | **57.1** | **43.6** | **261.4** | **(40.4)** | **1,195.7** |

## 6 Segment Analysis (Continued)

The capital expenditures analysed by segment for the year ended 31 December 2017 are as follows:

| *In millions of EUR* | Note | Asset Management | Development in Realisation | Development in Preparation | Investment Management | Non Core | Cash | Unallocated | Total |
|---|---|---|---|---|---|---|---|---|---|
| Purchases of investment property | 9 | 280.4 | - | 21.1 | - | - | - | - | **301.5** |
| Construction costs related to investment property | 9 | 23.6 | 80.8 | 25.9 | - | 6.8 | - | - | **137.1** |
| Construction costs related to joint ventures | | 27.1 | - | - | - | - | - | - | **27.1** |
| Contruction costs related to contract works | | - | 37.3 | - | - | - | - | - | **37.3** |
| **Total investments** | | **331.1** | **118.1** | **47.0** | **-** | **6.8** | **-** | **-** | **503.0** |
| Sale of investment property | 25 | (31.1) | - | (1.2) | (183.7) | - | - | - | **(216.0)** |
| **Total divestments** | | **(31.1)** | **-** | **(1.2)** | **(183.7)** | **-** | **-** | **-** | **(216.0)** |

## 6 Segment Analysis (Continued)

***Geographical information.*** Revenue, expenses, non-current assets and capital expenditures analysed by country for the year ended 31 December 2017 are as follows:

| *In millions of EUR* | Note | Slovakia | Czech Republic | Poland | Hungary | United Kingdom | Other countries | Unallo-cated | Total |
|---|---|---|---|---|---|---|---|---|---|
| Rental and similar income | 20 | 28.3 | 11.0 | 14.2 | - | 7.1 | - | - | **60.6** |
| Direct operating expenses | 21 | (14.1) | (2.2) | (4.3) | - | (1.3) | - | - | **(21.9)** |
| **Net operating income from investment property** | | **14.2** | **8.8** | **9.9** | **-** | **5.8** | **-** | **-** | **38.7** |
| Revaluation gain | 9 | 43.4 | 0.7 | 24.2 | 19.5 | 7.4 | - | - | **95.2** |
| Share of profit of joint ventures | | 0.1 | - | 7.0 | - | - | - | - | **7.1** |
| Interest expense | | (12.5) | (3.7) | (7.0) | (0.3) | (0.9) | - | - | **(24.4)** |
| Investment management fee | | - | - | - | - | - | 1.5 | - | **1.5** |
| Other (expenses)/revenues | | 2.8 | (5.0) | (2.4) | (3.6) | (10.0) | (5.9) | (0.2) | **(24.3)** |
| **Profit before income tax** | | **48.0** | **0.8** | **31.7** | **15.6** | **2.3** | **(4.4)** | **(0.2)** | **93.8** |
| Investment property in use or vacant | 9 | 192.1 | - | 71.7 | - | 281.8 | - | - | **545.6** |
| Investment property under development | 9 | 263.8 | 37.6 | 322.3 | 80.4 | 157.7 | - | - | **861.8** |
| Investment in joint venture | 10 | 2.4 | - | 53.8 | - | - | - | - | **56.2** |
| Other non-current assets | | 12.9 | 3.2 | 20.7 | 1.2 | 10.9 | 1.4 | 1.1 | **51.4** |
| **Total non-current assets** | | **471.2** | **40.8** | **468.5** | **81.6** | **450.4** | **1.4** | **1.1** | **1,515.0** |
| Non-current assets classified as held for sale | 14 | 64.3 | 111.9 | 210.3 | - | - | - | - | **386.5** |
| **Total non-current assets, including held for sale** | | **535.5** | **152.7** | **678.8** | **81.6** | **450.4** | **1.4** | **1.1** | **1,901.5** |
| Cash and cash equivalents | 15 | 28.3 | 1.5 | 23.3 | 3.0 | 112.7 | 92.6 | - | **261.4** |
| Other unallocated assets | | - | - | - | - | - | - | 131.9 | **131.9** |
| **Total assets** | | **563.8** | **154.2** | **702.1** | **84.6** | **563.1** | **94.0** | **133.0** | **2,294.8** |
| Borrowings | 18 | | | | | | | | |
| - non-current | | (348.3) | (62.0) | (138.4) | (5.2) | (45.0) | - | - | **(598.9)** |
| - current | | (46.8) | (0.3) | (18.9) | (1.9) | - | (14.2) | - | **(82.1)** |
| Liabilities associated with non-current assets held for sale | 14 | (42.8) | (56.9) | (139.3) | - | - | - | - | **(239.0)** |
| Deferred income tax liability | 26 | - | - | - | - | - | - | (69.9) | **(69.6)** |
| Other unallocated liabilities | | - | - | - | - | - | - | (109.2) | **(109.2)** |
| **Total liabilities** | | **(437.9)** | **(119.2)** | **(296.6)** | **(7.1)** | **(45.0)** | **(14.2)** | **(179.1)** | **(1,099.1)** |
| **Segment net asset value** | | **125.9** | **35.0** | **405.5** | **77.5** | **518.1** | **79.8** | **(46.1)** | **1,195.7** |
| Purchases of investment property (incl. non-cash) | 9 | - | 12.9 | 8.2 | - | 280.4 | - | - | **301.5** |
| Construction costs related to investment property | 9 | 49.2 | 4.1 | 28.2 | 12.0 | 43.6 | - | - | **137.1** |
| Construction costs related to joint ventures | | - | - | 27.1 | - | - | - | - | **27.1** |
| Construction costs related to construction work | | - | - | - | - | 37.3 | - | - | **37.3** |
| **Total investments** | | **49.2** | **17.0** | **63.5** | **12.0** | **361.3** | **-** | **-** | **503.0** |
| Sale of investment property | 25 | (102.6) | (113.4) | - | - | - | - | - | **(216.0)** |
| **Total divestments** | | **(102.6)** | **(113.4)** | **-** | **-** | **-** | **-** | **-** | **(216.0)** |

## 7 Balances and Transactions with Related Parties

Related parties are defined in IAS 24, *Related Party Disclosures*. Parties are generally considered to be related if one party has the ability to control the other party, is under common control, or can exercise significant influence or has joint control over the other party in making financial and operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form. The Company's immediate parent and ultimate controlling party are disclosed in Note 1. Transactions are generally entered into on an arm's length basis.

Key management of the Group consists of 19 senior managers (2017: 18). Short-term bonuses fall due wholly within twelve months after the end of the period in which management rendered the related services.

The nature of the related party relationships for those related parties with whom the Group entered into significant transactions or had significant balances outstanding at 31 December 2018 are detailed below.

At 31 December 2018, the outstanding balances with related parties are as follows:

| *In millions of EUR* | **Entities under common control** | **Key management personnel** | **Joint ventures** | **Total** |
|---|---|---|---|---|
| Trade and other receivables (Note 13) | 7.6 | 0.3 | 0.2 | **8.1** |
| Impairment loss provision for trade receivables to related party | (3.4) | - | - | **(3.4)** |
| Financial assets | 0.3 | - | - | **0.3** |
| Loans (Note 13) | 1.2 | - | 13.3 | **14.5** |
| Borrowings (Note 18) | (14.0) | - | - | **(14.0)** |
| Other non-current assets (Note 12) | - | - | 5.7 | **5.7** |
| Trade and other payables current (Note 19) | (9.1) | (0.8) | (0.3) | **(10.2)** |
| Trade and other payables non - current (Note 19) | (6.4) | - | - | **(6.4)** |
| Other payables non-current (Note 19) | (0.7) | - | - | **(0.7)** |

The income and expense items with related parties for the year ended 31 December 2018 are as follows:

| *In millions of EUR* | **Entities under common control** | **Key management personnel** | **Joint ventures** | **Total** |
|---|---|---|---|---|
| Revenue from services rendered | 4.3 | - | - | **4.3** |
| Revenue from construction contracts | - | 2.2 | 7.0 | **9.2** |
| Rental income | 2.4 | - | 0.3 | **2.7** |
| Rental expenses | (1.2) | - | - | **(1.2)** |
| Other services | (9.0) | (0.6) | (0.1) | **(9.7)** |
| Short-term employee benefits (salaries) | - | (2.9) | - | **(2.9)** |
| Long-term employee benefits (social security costs) | - | (0.5) | - | **(0.5)** |
| Interest income | 0.1 | - | 1.1 | **1.2** |
| Interest expense | (0.2) | - | (0.1) | **(0.3)** |
| Other financial income | 0.1 | | | **0.1** |

At 31 December 2017, the outstanding balances with related parties are as follows:

| *In millions of EUR* | **Entities under common control** | **Key management personnel** | **Joint ventures** | **Total** |
|---|---|---|---|---|
| Trade and other receivables (Note 13) | 11.7 | 0.3 | 28.2 | **40.2** |
| Other assets | 4.7 | - | - | **4.7** |
| Financial assets | 0.1 | - | - | **0.1** |
| Loans and receivables – non-current (Note 11) | 1.0 | - | - | **1.0** |
| Borrowings (Note 18) | (14.2) | - | - | **(14.2)** |
| Loans (Note 13) | 0.3 | - | 36.6 | **36.9** |
| Other non-current assets (Note 12) | - | - | 6.5 | **6.5** |
| Trade and other payables – current (Note 19) | (10.5) | (0.5) | (6.9) | **(17.9)** |
| Other payables non-current (Note 19) | (0.7) | - | - | **(0.7)** |

## 7 Balances and Transactions with Related Parties (Continued)

The income and expense items with related parties for the year ended 31 December 2017 are as follows:

| *In millions of EUR* | Entities under common control | Key management personnel | Joint ventures | Total |
|---|---|---|---|---|
| Revenue from services rendered | 4.6 | - | - | **4.6** |
| Revenue from construction contracts | - | 2.3 | 38.7 | **41.0** |
| Rental income | 4.7 | - | 0.3 | **5.0** |
| Rental expense | (1.2) | - | - | **(1.2)** |
| Other services | (1.5) | - | (0.3) | **(1.8)** |
| Short-term employee benefits (salaries) | - | (1.8) | - | **(1.8)** |
| Long-term employee benefits (social security costs) | - | (0.5) | - | **(0.5)** |
| Foreign exchange gains less losses | (0.1) | - | (1.0) | **(1.1)** |
| Other financial income | 0.2 | - | - | **0.2** |

A shareholder entity has made an undertaking to pay to the senior managers of the Group an amount under a profit sharing scheme based on increase in Net Asset Value (adjusted) of the Group. As the amount is payable by the shareholder, and does not constitute a share based payment under IFRS, it has not been expensed by the Group. The amount paid or accrued with respect to 2017 and/or 2018 are not material in the context of the consolidated financial statements. The compensation of the Board of Directors of the Parent Company amounted to EUR 0.8 million in 2018 (2017: EUR 0.7 million).

The Group had no outstanding loans receivable from the members of the Board of Directors of the Group as at 31 December 2018 (2017: nil).

Distributions to owners paid by Group in 2018 and 2017 respectively are described in Note 17.

The Group’s investment in joint ventures is described in Note 10. The Group received dividend in amount of EUR 10.1 million from joint ventures during 2018.

## 8 Property, Plant and Equipment

Movements in the carrying amount of property, plant and equipment were as follows:

| *In millions of EUR* | Land and buildings | Machinery, equipment | Vehicles and other assets | Capital work in progress including advances (CIP) | Total |
|---|---|---|---|---|---|
| **At 1 January 2017** | | | | | |
| Cost | **12.9** | **6.8** | **27.1** | **-** | **46.8** |
| Accumulated depreciation and impairment charges | **(7.4)** | **(4.8)** | **(25.6)** | **-** | **(37.8)** |
| **Net book value** | **5.5** | **2.0** | **1.5** | **-** | **9.0** |
| **Year ended 31 December 2017** | | | | | |
| Additions | **-** | **-** | **-** | **4.5** | **4.5** |
| Transfers | **2.5** | **0.4** | **1.4** | **(4.3)** | **0.0** |
| Disposals | **(1.3)** | **(0.8)** | **(0.1)** | **-** | **(2.2)** |
| Depreciation charge | **(0.3)** | **(0.7)** | **(0.8)** | **-** | **(1.8)** |
| **Closing net book value** | **6.4** | **0.9** | **2.0** | **0.2** | **9.5** |
| **At December 2017** | | | | | |
| Cost | **14.1** | **6.4** | **28.4** | **0.2** | **49.1** |
| Accumulated depreciation | **(7.7)** | **(5.5)** | **(26.4)** | **-** | **(39.6)** |
| **Net book value** | **6.4** | **0.9** | **2.0** | **0.2** | **9.5** |
| **Year ended 31 December 2018** | | | | | |
| Additions | **-** | **0.1** | **-** | **2.6** | **2.7** |
| Transfers | **0.1** | **0.1** | **-** | **(0.2)** | **-** |
| Disposals | **-** | **(0.1)** | **(0.8)** | **(0.3)** | **(1.2)** |
| Depreciation charge | **(0.1)** | **(0.9)** | **(0.8)** | **-** | **(1.8)** |
| **Closing net book value** | **6.4** | **0.2** | **0.4** | **2.3** | **9.3** |
| **At December 2018** | | | | | |
| Cost | **14.2** | **6.6** | **27.6** | **2.3** | **50.6** |
| Accumulated depreciation | **(7.8)** | **(6.4)** | **(27.2)** | **-** | **(41.4)** |
| **Net Book Value** | **6.4** | **0.2** | **0.4** | **2.3** | **9.3** |

As at 31 December 2018, the Group did not lease any significant property, plant and equipment under finance leases (where the Group is the lessee) (2017: nil). At 31 December 2018, property, plant and equipment carried at EUR 4.9 million (at 31 December 2017: EUR 5.3 million) has been pledged to third parties as collateral with respect to borrowings.

## 9 Investment Property

| | 2018 | | 2017 | |
|---|---|---|---|---|
| *In millions of EUR* | Under development | In use or vacant | Under development | In use or vacant |
| **Fair value at 1 January** | **861.8** | **545.6** | **639.5** | **565.1** |
| Acquisitions of investment property | 149.7 | 8.1 | 21.1 | 280.4 |
| Subsequent expenditure on investment property | 192.6 | 30.8 | 113.5 | 23.6 |
| Transfers from disposal groups classified as held for sale | 19.9 | - | - | - |
| Transfers from under development to in use | (226.7) | 226.7 | - | - |
| Transfers to property, plant and equipment (Note 8) | - | - | - | (0.9) |
| Transfers to disposal groups classified as held for sale (Note 14) | (18.3) | (177.6) | (18.3) | (158.2) |
| Transfers to financial investment due to loss of control (Note 25) | - | - | - | (183.7) |
| Disposals | (107.4) | (14.4) | (1.0) | - |
| Fair value gains/(losses) – properties completed during the year | 62.7 | - | - | - |
| Fair value gains/(losses) | 124.5 | 7.6 | 94.4 | 0.8 |
| Effect of translation to presentation currency | (15.2) | (4.0) | 12.6 | 18.5 |
| **Fair value at 31 December** | **1,043.6** | **622.8** | **861.8** | **545.6** |

In year 2017, the group has classified a project in Brno, Czech Republic as held for sale. Management have revised their intention with this property during the year 2018 and decided to keep it in the Group's portfolio. As such the Group transferred EUR 19.9 from disposal groups classified as held for sale to investment property as at 31 December 2018.

The Group classified certain operating leases as investment properties. Such operating leases are accounted for as if they were finance leases. The carrying value of such investment property as of 31 December 2018 was EUR 9.1 million (2017: EUR 9.1 million).

At 31 December 2018, investment properties carried at EUR 1,086.2 million (at 31 December 2017: EUR 844.6 million) have been pledged to third parties as collateral with respect to borrowings.

Valuations obtained for investment properties were adjusted for the purpose of the financial statements to avoid double-counting of assets or liabilities that are recognised as separate assets and liabilities and with respect to non-binding offers, results of prospective purchaser due diligence and other factors. Reconciliation between the valuations obtained and the adjusted valuation included in the financial statements is as follows:

| *In millions of EUR* | Note | 31 December 2018 | 31 December 2017 |
|---|---|---|---|
| **Valuations obtained** | | **1,943.3** | **1,780.6** |
| Less: property classified as property plant and equipment (own use) | | (5.7) | (5.7) |
| Less: management adjustments to consider subsequent non binding offers, results of prospective purchaser due diligence and other factors | | 3.3 | 8.6 |
| Less: lease incentive receivables | 11(a) | (8.7) | (8.5) |
| Less: transfers to disposal groups classified as held for sale | 14 | (193.8) | (176.5) |
| Less: transfers to disposal groups classified as held for sale in previous year | | (72.0) | (191.1) |
| **Fair value at 31 December** | | **1,666.4** | **1,407.4** |

## 10 Investments in Joint Ventures

In 2014, the Group entered into a new joint venture in Poland with 51% economic interest in West Station Investment. In 2015, the Group increased its economic interest in the joint venture to 71% with no subsequent change in the following years.

The following amounts represent the assets, liabilities, revenue and results of the joint ventures:

| | 2018 | | 2017 | |
|---|---|---|---|---|
| *In millions of EUR* | **West Station Investment 1-2** | **Other Joint Ventures** | **West Station Investment 1-2** | **Other Joint Ventures** |
| Revenue | 12.6 | 0.6 | 2.4 | 0.6 |
| Profit and total comprehensive income for the year | 14.1 | 0.4 | 11.1 | 0.2 |
| Current assets | 28.5 | 0.4 | 12.6 | 0.3 |
| Non-current assets | 199.2 | 8.2 | 182.2 | 8.6 |
| Current liabilities | (16.0) | (3.7) | (65.1) | (4.0) |
| Non-current liabilities | (138.0) | (0.1) | (53.6) | (0.1) |
| **Net assets of the investee** | **73.7** | **4.8** | **76.1** | **4.8** |
| **Share of other venturers** | **(21.6)** | **(2.4)** | **(22.3)** | **(2.4)** |
| **Investments in joint ventures** | **52.1** | **2.4** | **53.8** | **2.4** |

The West Station joint venture has an outstanding borrowing from a third-party bank that includes a clause restricting payment of dividends to the investors without the lender's approval.

## 11 Receivables and Loans

| *In millions of EUR* | **Note** | **31 December 2018** | **31 December 2017** |
|---|---|---|---|
| Lease incentives receivables | (a) | 8.7 | 10.1 |
| Loans to related parties – non-current (Note 7) | (b) | - | 1.0 |
| Loans to third parties | | 0.5 | 0.6 |
| **Total receivables and loans** | | **9.2** | **11.7** |

Description and analysis by credit quality of receivables and loans is as follows:

(a) Lease incentive receivables of EUR 8.7 million (31 December 2017: EUR 10.1 million) represent cost of incentives recognised over the lease term, on a straight-line basis – see Note 2.9 and 2.18. These receivables are neither past due nor impaired. They are not secured and they are due from a wide variety of tenants and the Group has the ability to evict non-paying tenants.

(b) The Group has provided loans to its related parties amounting to nil as of 31 December 2018 (31 December 2017: EUR 1 million).

## 12 Other Non-Current Assets

| *In millions of EUR* | **Note** | **31 December 2018** | **31 December 2017** |
|---|---|---|---|
| Other non-current assets | (a) | 3.7 | 5.0 |
| Construction contracts retention due from joint ventures | (b) | 5.7 | 6.5 |
| **Total other non-current assets** | | **9.4** | **11.5** |

(a) As at 31 December 2018, EUR 1.2 million related to projects in Poland. The remaining balance consists of many non-material items. As at 31 December 2017, EUR 1.1 million relates to paid fee for undrawn loan. The remaining balance consists of many non-material items.

(b) Refer to Note 7, *Balances and Transactions with Related Parties* and Note 13.

## 13 Trade and Other Receivables

| *In millions of EUR* | Note | 31 December 2018 | 31 December 2017 |
|---|---|---|---|
| Trade receivables | | 14.5 | 12.1 |
| Trade receivables and advances to joint ventures | 7 | 0.2 | 28.2 |
| Derivatives and other financial assets | | 4.6 | 7.6 |
| Accrued rental income | | 1.5 | 0.4 |
| Unbilled receivables from service charges | | 5.3 | 3.3 |
| Loans to related parties | 7 (a) | 14.5 | 36.9 |
| Other financial receivables | | 1.7 | 7.8 |
| Trade and other receivables from related parties | 7 | 7.9 | 12.0 |
| Less impairment loss provision for trade receivables | | (5.0) | (5.3) |
| **Total financial receivables** | | **45.2** | **103.0** |
| VAT receivable | | 15.7 | 9.6 |
| Prepayments | | 10.1 | 2.8 |
| Income tax receivable | | 1.4 | 1.7 |
| **Total trade and other receivables** | | **72.4** | **117.1** |

(a) Loans are provided under the following conditions – interest rate 2.68-8.16% (2017: 3.67% - 9.86%).

The credit loss allowance for trade and other receivables is determined according to provision matrix presented in the table below.

| | Loss rate | Gross carrying amount | Lifetime ECL |
|---|---|---|---|
| Trade and other receivables | | | |
| - current | 0.5% | 32.5 | 0.2 |
| - less than 30 days overdue | 3.0% | 2.6 | 0.1 |
| - 30 to 90 days overdue | 5.0% | 0.6 | - |
| - 91 to 180 days overdue | 10.0% | 2.6 | 0.3 |
| - 181 to 360 days overdue | 25.0% | 2.0 | 0.5 |
| - over 360 days overdue | 75.0% | 5.3 | 3.9 |
| **Total trade receivables (gross carrying amount)** | | **45.6** | **5.0** |
| Credit loss allowance | | (5.0) | |
| **Total trade receivables (carrying amount)** | | **40.6** | |
| Fair value receivables | | 4.6 | |
| **Total financial receivables** | | **45.2** | |

The following table explains the changes in the credit loss allowance for trade and other receivables under simplified ECL model between the beginning and the end of the annual period:

| *In millions of EUR* | 2018 | 2017 |
|---|---|---|
| **Credit loss allowance at 1 January** | **5.3** | **1.7** |
| Credit loss allowance charge in profit or loss for the period | - | 3.6 |
| Write-offs | (0.3) | - |
| **Credit loss allowance at 31 December** | **5.0** | **5.3** |

**13 Trade and Other Receivables (Continued)**

Receivables collateralised by such inventory or other assets are as follows at 31 December:

| *In millions of EUR* | 31 December 2018 | 31 December 2017 |
|---|---|---|
| Trade receivables collateralised by: | | |
| - bank guarantees | 0.9 | 0.7 |
| - tenant deposits | 0.7 | 0.9 |
| **Total** | **1.6** | **1.6** |

The financial effect of collateral is presented by disclosing collateral values separately for (i) those receivables where collateral and other credit enhancements are equal to or exceed carrying value of the receivable ("over-collateralised assets") and (ii) those receivables where collateral and other credit enhancements are less than the carrying value of the receivable ("under-collateralised assets").

Financial effect of collateral at 31 December 2018 is as follows:

| | **Over-collateralised Assets** | | **Under-collateralised Assets** | |
|---|---|---|---|---|
| *In millions of EUR* | Carrying value of the assets | Fair value of collateral | Carrying value of the assets | Fair value of collateral |
| Trade and other receivables | 1.0 | 6.1 | 10.8 | 0.6 |

Financial effect of collateral of trade and other receivables at 31 December 2017 is as follows:

| | **Over-collateralised Assets** | | **Under-collateralised Assets** | |
|---|---|---|---|---|
| *In millions of EUR* | Carrying value of the assets | Fair value of collateral | Carrying value of the assets | Fair value of collateral |
| Trade and other receivables | 1.2 | 8.8 | 7.7 | 0.4 |

Collateral will be utilized to settle any receivables in case of customer's default.

Analysis by credit quality of trade and other receivables as of 31 December 2017 is as follows:

| *In millions of EUR* | **Trade receivables (incl. JV)** | **Accrued rental income** | **Loans to related parties** | **Other financial receivables** | **Total** |
|---|---|---|---|---|---|
| *Neither past due nor impaired – exposure to:* | | | | | |
| Receivables collateralised by bank or other guarantees | 1.6 | - | - | - | **1.6** |
| Receivables not secured | 78.3 | 3.7 | 0.3 | 15.4 | **97.7** |
| **Total neither past due nor impaired** | **79.9** | **3.7** | **0.3** | **15.4** | **99.3** |
| *Individually determined to be impaired* | | | | | |
| - less than 30 days overdue | 5.4 | - | - | - | **5.4** |
| - 30 to 90 days overdue | 1.3 | - | - | - | **1.3** |
| - 90 to 180 days overdue | 0.6 | - | - | - | **0.6** |
| - 180 to 360 days overdue | 0.3 | - | - | - | **0.3** |
| - over 360 days overdue | 1.4 | - | - | - | **1.4** |
| **Total individually impaired** | **9.0** | **-** | **-** | **-** | **9.0** |
| **Less impairment provision** | (5.3) | - | - | - | **(5.3)** |
| **Total** | **83.6** | **3.7** | **0.3** | **15.4** | **103.0** |

The primary factor that the Group considers in determining whether a receivable is impaired is its overdue status. As a result, the Group presents above an ageing analysis of trade and other receivables that are individually determined to be impaired. Certain trade receivables are secured by either bank guarantee or deposit. The unsecured trade receivables are from a wide variety of tenants and the Group has the ability to evict non-paying tenants.

**13 Trade and Other Receivables (Continued)**

The carrying amount of each class of trade and other receivables approximated their fair value.

The Group has pledged the receivables of EUR 2.1 million as collateral for the borrowings as at 31 December 2018 (2017: EUR 1.5 million).

**14 Non-current Assets Held for Sale**

Major classes of assets classified as held for sale:

| *In millions of EUR* | 31 December 2018 | 31 December 2017 |
|---|---|---|
| Property, plant and equipment | 15.8 | - |
| Investment property | 242.4 | 350.0 |
| Trade and other receivables | 11.5 | 18.2 |
| Receivables and loans | - | 0.6 |
| Cash and cash equivalents | 1.5 | 17.7 |
| **Total assets classified as held for sale** | **271.2** | **386.5** |

As of 31 December 2018, the Group classified assets and liabilities of the five (5) subsidiaries (HB REAVIS Buda Project Kft., TC Tower A1 s. r. o., Twin City III s. r. o., Twin City IV s. r. o. and SPV Vištuk s. r. o.) as held for sale.
As of 31 December 2017, the Group classified assets and liabilities of the five (5) subsidiaries (AUPARK Brno, spol. s r.o., FORSEA s.r.o., GBC C Polcom Investment XXIX Sp. z o. sp. k., GBC D Polcom Investment XXX Sp. z o. sp. k and Twin City IV s. r. o.) as held for sale. A part of Twin City C building recognized as an investment property as at 31 December 2017, became owner-occupied and was reclassified as property, plant and equipment as at 31 December 2018. Its fair value amounted to EUR 15.8 million as at 31 December 2018.

The Group sold shares in its subsidiaries Železniční Cargo MOŠNOV s.r.o. and HYPARKOS, s.r.o. during the year ended 31 December 2017. Both subsidiaries were classified as Non-current assets held for sale as at 31 December 2016.

The investment properties are valued annually on 31 December at fair value, with the benefit of advice by an independent, professionally qualified valuation expert who has recent experience in valuing similar properties in similar locations. The methods and significant assumptions applied in determining the fair value are described in Notes 3 and 31.

Major classes of liabilities directly associated with assets classified as held for sale:

| *In millions of EUR* | 31 December 2018 | 31 December 2017 |
|---|---|---|
| Deferred income tax liability | 10.5 | 21.8 |
| Borrowings | 143.9 | 212.0 |
| Trade and other payables | 4.4 | 5.2 |
| **Total liabilities directly associated with assets classified as held for sale** | **158.8** | **239.0** |

At 31 December 2018, investment properties held for sale carried at EUR 242.4 million (at 31 December 2017: EUR 350.0 million), property, plant and equipment of EUR 15.8 milion (at 31 December 2017: EUR nil) and the receivables of EUR 11.5 million (at 31 December 2017: EUR 18.2 million) have been pledged to third parties as collateral with respect to borrowings.

Three (FORSEA s.r.o., GBC C Polcom Investment XXIX Sp. z o. sp. k., GBC D Polcom Investment XXX Sp. z o. sp. k.) out of five subsidiaries classified held for sale as at 31 December 2017 were sold during year 2018. Due to favourable changes on the market and ongoing negotiations, the sale of subsidiary Twin City IV s.r.o. has not been completed during 2018. The project is actively marketed and the Group is committed to complete the sale during 2019.

## 15 Cash and Cash Equivalents

| *In millions of EUR* | 31 December 2018 | 31 December 2017 |
|---|---|---|
| Cash at bank and in hand | 172.3 | 261.4 |
| **Total cash and cash equivalents** | **172.3** | **261.4** |

At 31 December 2018, cash and cash equivalents were available for the Group's use, except for restricted cash in the amount of EUR 2.8 million (2017: EUR 2.2 million).
The table below discloses the credit quality of cash and cash equivalents balances based on credit risk grades at 31 December 2018. Refer to Note 29 for the description of the Group's credit risk grading system.

| *In millions of EUR* | Cash at bank | Total |
|---|---|---|
| - Excellent | 131.0 | 131.0 |
| - Good | 41.0 | 41.0 |
| - Satisfactory | 0.3 | 0.3 |
| **Total cash and cash equivalents** | **172.3** | **172.3** |

The Company classifies banks based on ratings as follows:

- Banks rated Excellent: Rating by Moody's A1, A2, A3 or rating by Fitch A+, A, A-
- Banks rated Good: Rating by Moody's Baa1, Baa2, Baa3 or Fitch BBB+, BBB, BBB-
- Banks rated Satisfactory: Rating by Moody's Ba1, Ba2, Ba3 or Fitch BB+, BB, BB-

All the bank balances were neither past due nor impaired. Analysis by credit quality of bank balances and as at 31 December 2017 is as follows:

| *In millions of EUR* | Cash at bank | Total |
|---|---|---|
| *Rating by the Company* | | |
| - Banks rated 1 | 229.1 | 229.1 |
| - Banks rated 2 | 17.6 | 17.6 |
| - Banks unrated | 14.7 | 14.7 |
| **Total** | **261.4** | **261.4** |

The Company classifies banks based on ratings as follows:

- Banks rated 1: Rating by Moody's A1, A2, A3 or rating by Fitch A+, A, A-
- Banks rated 2: Rating by Moody's Baa1, Baa2, Baa3 or Fitch BBB+, BBB, BBB-
- Banks rated 3: Rating by Moody's Ba1, Ba2, Ba3 or Fitch BB+, BB, BB-

The carrying amounts of cash and cash equivalents as of 31 December 2018 and 31 December 2017 are not substantially different from their fair value. The maximum exposure to credit risk relating to cash and cash equivalents is limited to the carrying value of cash and cash equivalents.

## 16 Financial investments

| *In millions of EUR* | Note | 31 December 2018 | 31 December 2017 |
|---|---|---|---|
| Investment in The Cambridge Incubator, LLC | (a) | 51.6 | - |
| Investment in HB REAVIS CE Real Estate Investment Fund | | 0.2 | 1.1 |
| **Total financial investments** | | **51.8** | **1.1** |

(a) In February 2018 the Group acquired a non-controlling share in The Cambridge Incubator, LLC, a Delaware limited liability company for a consideration of EUR 49.8 million. The only change compared to balance as at 31 December 2018 was caused by the foreign exchange rates shift. All financial investments are measured at fair value through profit or loss (Note 2.2, Note 3). The fair value of investment in The Cambridge Incubator, LLC as at 31 December 2018 approximates its acquisition costs.

## 17 Share Capital and Share Premium

| | Number of shares | Ordinary shares in EUR | Share premium in EUR | Total in EUR |
|---|---|---|---|---|
| At 1 January 2017 | 12,500 | 12,500 | 532,622,500 | **532,635,000** |
| At 31 December 2017 | 12,500 | 12,500 | 494,002,499 | **494,014,999** |
| At 31 December 2018 | 30,000 | 30,000 | 455,852,721 | **455,882,721** |

The total authorised number of ordinary shares is 30,000 shares with a par value of EUR 1 per share. All issued ordinary shares are fully paid. Each ordinary share carries one vote. 12,500 shares were issued on 20 October 2010 and additional 17,500 shares were issued on 4 September 2018 due to change of legal form of the company from a private limited liability company into a public limited liability company.

The terms of external borrowings drawn by the Group impose limitations on the ability of the subsidiaries to pay distributions to owners.

Distributions to owners declared and paid during the year were as follows:

| *In millions of EUR, except dividends per share amount* | Note | 2018 | 2017 |
|---|---|---|---|
| **Distributions to owners payable at 1 January** | 19 | **8.8** | **-** |
| Distributions declared during the year (from share premium) | | 38.1 | 38.6 |
| Distributions paid during the year | | (46.9) | (29.8) |
| **Distributions to owners payable at 31 December** | 19 | **-** | **8.8** |
| Amount per share declared during the year in EUR | | 1,271.7 | 3,089.6 |

## 18 Borrowings

| *In millions of EUR* | Note | 31 December 2018 | 31 December 2017 |
|---|---|---|---|
| **Non-current** | | | |
| Bank borrowings | | 289.3 | 272.5 |
| Issued bonds | (a) | 293.8 | 326.4 |
| Finance lease liabilities | (b) | 31.3 | - |
| Total non-current borrowings | | **614.4** | **598.9** |
| **Current** | | | |
| Bank borrowings | | 84.0 | 64.3 |
| Borrowings from related parties | 7 | 14.0 | 14.2 |
| Issued bonds | (a) | 35.2 | 3.6 |
| Total current borrowings | | **133.2** | **82.1** |
| **Total borrowings** | | **747.6** | **681.0** |

(a) The bonds represent following debt instruments: (i) EUR denominated bonds in the amount EUR 30 million, which were issued in Bratislava in August 2014 with maturity August 2019, bearing an interest of 4.25% p.a.; (ii) EUR denominated bonds in the amount EUR 40 million, which were issued in Bratislava in March 2015 with maturity March 2020, bearing an interest of 4.25% p.a.; (iii) CZK denominated bonds in the amount CZK 1,250 million (EUR 48.9 million) , which were issued in Prague in March 2016 with maturity March 2021, bearing an interest of 6M PRIBOR + 4% p.a.; (iv) PLN denominated bonds in the amount PLN 100 million (EUR 23.9 million), which were issued in Warsaw in October 2016 with maturity April 2021, bearing an interest of 6M WIBOR + 4.40% p.a.; (v) EUR denominated bonds in the amount EUR 25 million, which were issued in Bratislava in December 2016 with maturity December 2021, bearing an interest of 3.50% p.a.; (vi) EUR denominated bonds in the amount EUR 12 million, which were issued in Bratislava in March 2017 with maturity March 2022, bearing an interest of 3.50% p.a.; (vii) EUR denominated bonds in the amount EUR 20 million, which were issued in Bratislava in June 2017 with maturity June 2022, bearing an interest of 3.35% p.a.; (viii) PLN denominated bonds in the amount PLN 220 million (EUR 52.6 million), which were

**18 Borrowings (Continued)**

issued in Warsaw in July 2017 with maturity January 2022, bearing an interest of 6M WIBOR + 4.20% p.a.; (ix) EUR denominated bonds in the amount EUR 45 million, which were issued in Bratislava in September 2017 with maturity September 2027, bearing an interest of 4.45% p.a.; (x) EUR denominated bonds in the amount EUR 31 million, which were issued in Bratislava in November 2017 with maturity November 2023, bearing an interest of 3.25% p.a..

The Group's borrowings are denominated in EUR, GBP, PLN or CZK.

(b) The finance lease liabilities fall due as follows:

| *In millions of EUR* | 31 December 2018 | 31 December 2017 |
|---|---|---|
| Repayable between 2 and 5 years | 31.3 | |
| **Total** | **31.3** | **-** |

The finance lease liability of EUR 31.3 million represents a consideration equivalent to GBP 28.0 million the Group agreed to pay in return for becoming a leasehold owner of the premises at Farringdon West, London, UK, which is payable upon the completion of the project.

The present value of finance lease liability approximates the gross finance lease liability payable.

**Net debt reconciliation**

The table below sets out an analysis of our debt and the movements in our debt for 2018. The debt items are those that are reported as financing in the statement of cash flows.

| *In millions of EUR* | Bank borrowings | Bonds | Finance lease liabilities | Other indebtedness | Total |
|---|---|---|---|---|---|
| **Borrowings as presented in the Statement of financial position as at 31 December 2016** | **396.7** | **195.8** | **-** | **63.7** | **656.2** |
| Borrowings under liabilities directly associated with non-current assets classified as held for sale as at 31 December 2016 (Note 14) | 90.3 | - | - | - | **90.3** |
| **Total borrowings as at 31 December 2016** | **487.0** | **195.8** | **-** | **63.7** | **746.5** |
| Proceeds from new drawdowns | 378.4 | 162.8 | - | - | **541.2** |
| Repayments | (181.2) | (32.7) | - | - | **(213.9)** |
| Foreign exchange adjustments | (8.5) | (4.2) | - | - | **(12.7)** |
| Non-cash movement due to loss of control in a subsidiary | (113.5) | - | - | (63.7) | **(177.2)** |
| Interest accrued | 0.8 | 8.3 | - | - | **9.1** |
| **Borrowings as presented in the Statement of financial position as at 31 December 2017** | **351.0** | **330.0** | **-** | **-** | **681.0** |
| Borrowings under liabilities directly associated with non-current assets classified as held for sale as at 31 December 2017 (Note 14) | 212.0 | - | - | - | **212.0** |
| **Total borrowings as at 31 December 2017** | **563.0** | **330.0** | **-** | **-** | **893.0** |
| Proceeds from new drawdowns | 294.4 | - | - | - | **294.4** |
| Repayments | (109.1) | - | - | - | **(109.1)** |
| Foreign exchange adjustments | 2.7 | 2.6 | - | - | **5.3** |
| Non-cash movement due to loss of control in a subsidiary | (218.7) | - | - | - | **(218.7)** |
| Change in accrued interest | 2.3 | (1.0) | - | - | **1.3** |
| Effect of translation to presentation currency | (3.4) | (2.6) | - | - | **(6.0)** |
| Finance lease additions | - | - | 31.3 | - | **31.3** |
| **Borrowings as presented in the Statement of financial position as at 31 December 2018** | **387.3** | **329.0** | **31.3** | **-** | **747.6** |
| Borrowings under liabilities directly associated with non-current assets classified as held for sale as at 31 December 2018 (Note 14) | 143.9 | - | - | - | **143.9** |
| **Total borrowings as at 31 December 2018** | **531.2** | **329.0** | **31.3** | **-** | **891.5** |

## 18 Borrowings (Continued)

The carrying amounts and fair values of the non-current borrowings are set out below:

| | Carrying amounts at 31 December | | Fair values at 31 December | |
|---|---|---|---|---|
| *In millions of EUR* | **2018** | **2017** | **2018** | **2017** |
| Bank borrowings | 289.3 | 272.5 | 294.6 | 274.8 |
| Issued bonds | 293.8 | 326.4 | 330.9 | 335.9 |
| Finance lease liability | 31.3 | - | 31.3 | - |
| **Non-current borrowings** | **614.4** | **598.9** | **656.8** | **610.7** |

Assumptions used in determining fair value of borrowings are described in Note 31. The carrying values of current borrowings approximate their fair values.
The Group has the following undrawn borrowing facilities:

| *In millions of EUR* | **31 December 2018** | **31 December 2017** |
|---|---|---|
| Availability: | | |
| - Expiring within one year | 33.6 | 40.7 |
| - Expiring beyond one year | 297.5 | 138.8 |
| **Total undrawn facilities** | **331.1** | **179.5** |

Investment properties (Note 9), property, plant and equipment (Note 8) and receivables (Note 13) are pledged as collateral for borrowings of EUR 364.8 million (2017: EUR 342.9 million).

The loan agreements with third party creditors are governed by terms and conditions which include maximum loan to value ratios ranging from 55% to 75% (2017: 53% to 70%) and minimum debt service coverage ratios ranging from 1.00 to 1.20 (2017: 1.15 to 1.30). During 2018 and up to the date of authorisation of these consolidated financial statements for issue, the Group was in compliance with all loan agreement terms and no terms of the loans were renegotiated due to defaults or breaches. Furthermore, after 31 December 2018 and up to date of authorisation of these consolidated financial statements for issue, the Group repaid the loan of EUR 14.0 million and drawn EUR 71.3 million of new loans including EUR 15.0 million of new bond issue.

## 19 Trade and Other Payables

| *In millions of EUR* | Note | 31 December 2018 | 31 December 2017 |
|---|---|---|---|
| **Non – current** | | | |
| Long-term payables | | 15.2 | 10.3 |
| **Total non-current payables** | | **15.2** | **10.3** |
| **Current** | | | |
| Trade payables | | 13.8 | 24.1 |
| Liabilities for construction of investment properties | | 39.8 | 25.0 |
| Accrued liabilities | | 18.2 | 15.4 |
| Distribution payable to owners | 17 | - | 8.8 |
| Derivative financial instruments | | 1.8 | 2.9 |
| Other payables | | 2.6 | 0.1 |
| Liabilities due to joint ventures | | 0.3 | 6.9 |
| Refund liability | | 4.2 | 3.4 |
| **Total current financial payables** | | **80.7** | **86.6** |
| Items that are not financial instruments: | | | |
| Deferred rental income | | 5.0 | 6.2 |
| Contract liability | | 1.7 | 1.6 |
| Accrued employee benefit costs | | 1.4 | 3.0 |
| Other taxes payable | | 0.6 | 1.0 |
| VAT payable | | 0.7 | 0.4 |
| Prepayments | | 0.8 | 0.1 |
| **Total current trade and other payables** | | **90.9** | **98.9** |

The fair value of trade payables, finance lease liabilities, liabilities for construction of investment property, accrued liabilities, dividends payable, other trade payables to related parties and of other liabilities is not significantly different from their carrying amount.

## 20 Rental and Similar Income from Investment Property

| *In millions of EUR* | 2018 |
|---|---|
| Rental income | |
| Office | 40.0 |
| Retail | 1.4 |
| Industrial | - |
| Service charges | |
| Office | 14.9 |
| Retail | 0.7 |
| Industrial | - |
| Management charges | |
| Office | 4.4 |
| Retail | 0.3 |
| Industrial | 0.4 |
| **Total Revenue** | **62.1** |

| *In millions of EUR* | 2018 | 2017 |
|---|---|---|
| Rental income – Office | 59.3 | 54.2 |
| Rental income – Retail | 2.4 | 2.3 |
| Rental income – Industrial | 0.4 | 4.1 |
| **Total revenue** | **62.1** | **60.6** |

## 20 Rental and Similar Income from Investment Property (Continued)

Where the Group is the lessor, the future minimum lease payments receivable under non-cancellable operating leases are as follows:

| *In millions of EUR* | 31 December 2018 | 31 December 2017 |
|---|---|---|
| Not later than 1 year | 29.0 | 32.6 |
| Later than 1 year and not later than 5 years | 126.5 | 58.6 |
| Later than 5 years | 209.0 | 31.5 |
| **Total operating lease payments receivable** | **364.5** | **122.7** |

The Group's rental income includes performance income depending on sales revenue of retail units leased by its tenants. These amounts are not included in the above payments receivable as the Group is unable to estimate them with sufficient certainty. Total contingent payments receivable recognised as income in 2018 under the Group's operating leases were EUR 0.1 million (2017: EUR nil).

## 21 Direct Operating Expenses arising from Investment Property

| *In millions of EUR* | 2018 | 2017 |
|---|---|---|
| *Direct operating expenses arising from investment property that generate rental income:* | | |
| Materials consumed | 1.1 | 0.4 |
| Repairs and maintenance services | 1.2 | 1.1 |
| Utilities costs | 5.1 | 5.7 |
| Services relating to investment property | 14.0 | 13.6 |
| Real estate tax | 0.9 | 1.1 |
| Other costs | 1.8 | - |
| **Total** | **24.1** | **21.9** |

## 22 Analysis of Revenue by Category

Analysis of revenue by category under revenue recognition guidance effective from 1 January 2018:

| *In millions of EUR* | Note | 2018 |
|---|---|---|
| Rental income | 20 | 41.4 |
| Service charges | 20 | 15.6 |
| Management charges | 20 | 5.1 |
| **Total Rental and similar income from investment property** | | **62.1** |
| Services rendered | 24 | 5.5 |
| Other | 24 | 1.7 |
| **Total Other operating income** | | **7.2** |
| **Construction revenue** | | **21.9** |
| **Total revenue and other income** | | **91.2** |

As at 31 December 2018, the Group has completed all contracts for construction of properties.

## 22 Analysis of Revenue by Category (Continued)

Analysis of revenue by category under revenue recognition guidance effective prior to 1 January 2018:

| *In millions of EUR* | Note | 2018 | 2017 |
|---|---|---|---|
| Rental and similar income | 20 | 62.1 | 60.6 |
| Construction revenue | | 21.9 | 85.5 |
| Revenue from services | 24 | 5.5 | 7.3 |
| Other | 24 | 1.7 | 1.8 |
| **Total revenue and other income** | | **91.2** | **155.2** |

## 23 Employee Benefits

| *In millions of EUR* | 2018 | 2017 |
|---|---|---|
| Wages and salaries | 24.4 | 26.4 |
| Pension costs – defined contribution plans | 1.3 | 1.4 |
| **Total employee benefits** | **25.7** | **27.8** |

The Group had 758 employees in the core real estate operations of the Group (on full time equivalent basis) as at 31 December 2018 (2017: 632 employees).

## 24 Operating Income and Expenses

Operating expenses comprised the following:

| *In millions of EUR* | 2018 | 2017 |
|---|---|---|
| Services | 31.5 | 38.5 |
| Rental expense | 3.6 | 3.3 |
| Cost of sold inventories | 1.9 | 1.0 |
| Audit fees | 0.9 | 0.8 |
| Material consumption | 1.4 | 1.4 |
| Energy costs | 0.2 | 0.2 |
| Net impairment losses on financial and contract assets | - | 3.6 |
| Other taxes | (0.3) | 1.5 |
| Other | 6.1 | 4.7 |
| **Total operating expenses** | **45.3** | **55.0** |

Other operating income comprised the following:

| *In millions of EUR* | 2018 | 2017 |
|---|---|---|
| Sales of services | 5.5 | 7.3 |
| Sales of inventories | 1.1 | 1.4 |
| Other operating income | 0.6 | 0.4 |
| **Total other operating income** | **7.2** | **9.1** |

## 25 Disposals of Subsidiaries

The Group sold shares in eight (8) subsidiaries during year 2018: GBC C Polcom Investment XXIX Sp. z o. sp. k, GBC D Polcom Investment XXX Sp. z o. sp. k, Jamestown Sp. z o.o., Jarrow Sp. z o.o., Gdanski C SCSp., Gdanski D SCSp., FORSEA s.r.o. and EIGHT House S.à r.l., of which GBC C Polcom Investment XXIX Sp. z o. sp. k, GBC D Polcom Investment XXX Sp. z o. sp. k and FORSEA s.r.o. was classified as Non-current assets held for sale as of 31 December 2017. In addition to the above, the Group lost control of the CE REIF subfund during year ended 31 December 2017.

The assets and liabilities of subsidiaries disposed of, the sale proceeds and the gain on disposal comprised:

| | **2018** | | **2017** | | |
|---|---|---|---|---|---|
| *In millions of EUR* | Subsidiaries sold to third parties | **Total subsidiaries sold** | Subsidiaries sold to third parties | Loss of control over subsidiary | **Total subsidiaries sold** |
| Investment property in use | 385.3 | **385.3** | 32.3 | 183.7 | **216.0** |
| Other non-current assets | 12.7 | **12.7** | 2.5 | - | **2.5** |
| Deferred tax liability | (26.5) | **(26.5)** | (2.9) | (16.8) | **(19.7)** |
| Borrowings | (218.7) | **(218.7)** | (0.4) | (176.8) | **(177.2)** |
| Trade and other payables | (4.1) | **(4.1)** | (19.5) | (20.4) | **(39.9)** |
| Cash and cash equivalents | 4.2 | **4.2** | 0.3 | 27.0 | **27.3** |
| Other working capital | 7.8 | **7.8** | 1.7 | 4.5 | **6.2** |
| **Net assets value** | **160.7** | **160.7** | **14.0** | **1.2** | **15.2** |
| Gain on divestments of subsidiaries | 21.8 | **21.8** | 8.5 | 17.3 | **25.8** |
| Foreign currency translation differences transferred from other comprehensive income upon loss of control | (7.4) | **(7.4)** | (0.4) | - | **(0.4)** |
| **Proceeds from sale and loss of control of subsidiaries** | **175.1** | **175.1** | **22.1** | **-** | **22.1** |
| Less cash in subsidiaries at the date of transaction | (4.2) | **(4.2)** | (0.3) | (27.0) | **(27.3)** |
| Less receivable from sale of subsidiary | (1.2) | **(1.2)** | - | - | **-** |
| Collection of prior period receivables from sale of subsidiaries | - | **-** | 1.7 | - | **1.7** |
| Settlement of prior period liability from sale of subsidiary | - | **-** | (0.1) | - | **(0.1)** |
| **Cash sale proceeds** | **169.7** | **169.7** | **23.4** | **(27.0)** | **(3.6)** |

## 26 Income Taxes

Income tax expense comprises the following:

| *In millions of EUR* | **2018** | **2017** |
|---|---|---|
| Current tax | (2.0) | 3.5 |
| Deferred tax | (29.5) | (14.1) |
| **Income tax credit/(expense) for the year** | **(31.5)** | **(10.6)** |

Reconciliation between the expected and the actual taxation charge is provided below.

| *In millions of EUR* | **2018** | **2017** |
|---|---|---|
| **Profit before income tax** | **151.6** | **93.8** |
| Theoretical tax charge at applicable rate 19.78% (2017: 19.55%) | (30.0) | (18.3) |
| Tax effect of items which are not deductible or assessable for taxation purposes: | | |
| - Income exempt from taxation | 6.3 | 8.2 |
| - Non-temporary taxable items | (1.3) | (1.9) |
| - Change in estimate of prior period income taxes | (0.4) | 4.7 |
| Unrecognised deferred tax assets | (6.7) | (4.0) |
| Utilisation of previously unrecognised tax loss carry-forwards | 0.6 | 0.8 |
| **Income tax credit/(expense) for the year** | **(31.5)** | **(10.6)** |

The Group uses 19.78% (2017: 19.55%) as the applicable tax rate to calculate its theoretical tax charge which is calculated as a weighted average of the rates applicable in the Slovak Republic of 21% (2017: 21%), the Czech Republic and Poland

## 26 Income Taxes (Continued)

of 19% (2017: 19%), Hungary of 9% (2017: 9%), Germany of 15% (2017:15%) and the UK of 20% (2017: 20%) where majority of the Group's operations are located.

Differences between IFRS and applicable statutory taxation regulations give rise to temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and their tax bases. The tax effect of the movements in these temporary differences is detailed below.

| *In millions of EUR* | 1 January 2017 | Charged/ (credited) to profit or loss | Divest-ment of subsi-diaries | Transfer to assets held for sale | Currency translation difference | 31 Dec 2017 | Charged/ (credited) to profit or loss | Divest-ment of subsi-diaries | Transfer to assets held for sale | Currency translation difference | 31 Dec 2018 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **Tax effect of deductible/(taxable) temporary differences** | | | | | | | | | | | |
| Investment properties | **(68.1)** | (12.6) | 19.7 | 6.2 | 0.7 | **(54.1)** | **(32.8)** | **7.5** | **7.6** | **(0.1)** | **(71.9)** |
| Unrealized foreign exchange (gains)/losses | **-** | - | - | - | - | **-** | **-** | **-** | **-** | **-** | **-** |
| Tax losses carried forward | **2.8** | (1.5) | - | - | - | **1.3** | **2.2** | **-** | **-** | **-** | **3.5** |
| Property, plant and equipment | **0.5** | - | - | - | - | **0.5** | **0.4** | **-** | **-** | **-** | **0.9** |
| Other | **(0.7)** | - | - | - | - | **(0.7)** | **0.7** | **-** | **-** | **-** | **-** |
| **Net deferred tax (liability)** | **(65.5)** | **(14.1)** | **19.7** | **6.2** | **0.7** | **(53.0)** | **(29.5)** | **7.5** | **7.6** | **(0.1)** | **(67.5)** |

In the context of the Group's current structure, tax losses and current tax assets of different group companies may not be offset against current tax liabilities and taxable profits of other group companies. Accordingly, taxes may accrue even where there is a consolidated tax loss. Therefore, deferred tax assets and liabilities are offset only when they relate to the same taxable entity.

The Group expects that substantially all of the deferred tax liability will crystallise after more than 12 months from the balance sheet date.

## 27 Foreign exchange gains/(losses)

| *In millions of EUR* | **2018** | **2017** |
|---|---|---|
| Bank borrowings – unrealised | (5.3) | 11.7 |
| Inter-company loans to foreign operations that do not form part of net investment – unrealised | (4.2) | 5.2 |
| Trade and other receivables and payables – realised during period | (0.2) | (1.7) |
| Trade and other receivables and payables – unrealised | 1.2 | (0.6) |
| **Foreign exchange (losses)/gains** | **(8.5)** | **14.6** |

## 28 Contingencies, Commitments and Operating Risks

***Tax legislation.*** Tax and customs legislation in countries where the Group operates is subject to varying interpretations, and changes, which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activity of the Group may be challenged by the relevant authorities. The Group includes holding companies incorporated in various jurisdictions. The tax liabilities of the Group are determined on the assumption that these holding companies are not subject to profits tax in other countries. This interpretation of relevant legislation may be challenged but the impact of any such challenge cannot be reliably estimated currently; however, it may be significant to the financial position and/or the overall operations of the Group. Refer also to Note 3.

***Capital expenditure commitments.*** Contractual obligations to purchase, construct or develop investment properties totalled EUR 169.8 million at 31 December 2018 (31 December 2017: EUR 199.4 million); this exposure will be partially financed by external loans (committed lines: EUR 338.6 million). The Group believes that future net income and funding will be sufficient to cover this and any similar such commitments.

**28 Contingencies, Commitments and Operating Risks (Continued)**

***Operating lease commitments.*** Where the Group is the lessee, the future minimum lease payments under non-cancellable operating leases are as follows:

| *In millions of EUR* | **2018** | **2017** |
|---|---|---|
| Not later than 1 year | 4.9 | 3.6 |
| Later than 1 year and not later than 5 years | 19.0 | 11.7 |
| Later than 5 years | 76.0 | 77.4 |
| **Total operating lease commitments at 31 December** | **99.9** | **92.7** |

Except for landplots in Poland (Note 5), the Group uses landplots in United Kingdom under the lease agreements. Under the agreements the right to use the landplots is transferred to the Group in exchange for remuneration in the form of fees that are subject to review or are dependent on market rent.

## 29 Financial Risk Management

The risk management function within the Group is carried out in respect of financial risks: credit risk, market risk (including changes in foreign currency exchange rates, interest rate and price risk), liquidity risks, operational risks and legal risks. The primary objectives of the financial risk management function are to establish risk limits, and then ensure that exposure to risks stays within these limits. The operational and legal risk management functions are intended to ensure proper functioning of internal policies and procedures to minimise operational and legal risks.

### *(i) Credit risk*

The Group takes on exposure to credit risk, which is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. Exposure to credit risk arises as a result of the Group's rental income on credit terms and other transactions with counterparties giving rise to financial assets. The Group's maximum exposure to credit risk represents the carrying value of its financial assets in the consolidated statement of financial position.

The Group has no significant off-balance sheet exposures to credit risk as it did not issue financial guarantees nor loan commitments to other parties. The Group structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to counterparties or groups of counterparties. Limits on the level of credit risk are approved regularly by Management. Such risks are monitored on a revolving basis and subject to an annual review.

Management has additional policies in place to secure trade receivables from rental business. The Group uses system of required bank guarantees or financial deposits to secure its receivables from rental business based on the rating of tenant.

The Group's management reviews ageing analysis of outstanding trade receivables and follows up on past due balances. Management therefore considers it appropriate to provide ageing and other information about credit risk as disclosed in Note 13.

Financial instruments subject to offsetting, enforceable master netting and similar arrangements are as follows at 31 December 2018:

| | | | | **Amounts subject to master netting and similar arrangements not set off in the statement of financial position** | | |
|---|---|---|---|---|---|---|
| *In millions of EUR* | **Gross amounts before offsetting in the statement of financial position a)** | **Gross amounts set off in the statement of financial position b)** | **Net amount after offsetting in the statement of financial position c) = a) - b)** | **Financial instruments d)** | **Cash collateral received e)** | **Net amount of exposure c) - d) - e)** |
| **Assets** | | | | | | |
| Trade receivables | 1.6 | - | 1.6 | 0.9 | 0.7 | - |
| **Liabilities** | | | | | | |
| Cash collateral received presented within trade and other payables | 0.7 | - | 0.7 | 0.7 | - | - |

**29 Financial Risk Management (Continued)**

Financial instruments subject to offsetting, enforceable master netting and similar arrangements are as follows at 31 December 2017:

| | | | | Amounts subject to master netting and similar arrangements not set off in the statement of financial position | | |
|---|---|---|---|---|---|---|
| *In millions of EUR* | Gross amounts before offsetting in the statement of financial position a) | Gross amounts set off in the statement of financial position b) | Net amount after offsetting in the statement of financial position c) = a) - b) | Financial instruments d) | Cash collateral received e) | Net amount of exposure c) - d) - e) |
| **Assets** | | | | | | |
| Trade receivables | 1.6 | - | 1.6 | 0.7 | 0.9 | - |
| **Liabilities** | | | | | | |
| Cash collateral received presented within trade and other payables | 0.9 | - | 0.9 | 0.9 | - | - |

According to the general terms and conditions of contracts with its customers, the Group requires either a cash collateral or bank guarantee in favour of the Group to ensure its receivables are collectible. The amount guaranteed by cash collateral or a bank guarantee is assessed by the Group annually. The Group has a right of set-off of any balances overdue against the collateral or amount drawn under a bank guarantee.

The amounts in columns (d) and (e) in the above table are limited to the exposure reported in column (c) for each individual instrument in order not to understate the ultimate net exposure.

***Credit risks concentrations***

As for the banks and financial institutions, Group has relationships only with those banks that have high independent rating assessment. The Group's bank deposits are held with 35 banks (2017: 33 banks) but 90.7% (2017: 97.2%) of cash balances as of 31 December 2018 are held with 10 (2017: 10) major banks. The Group's management considers the concentration of credit risk with respect to cash balances with banks as acceptable. The analysis by credit quality (bank rating) is provided in Note 15.

As at 31 December 2018, the Group receivables from joint ventures amounted to EUR 0.2 million (2017: EUR 28.2 million). The Group's management considers the concentration of credit risk with respect to receivables balances to joint ventures.

***Expected credit loss (ECL) measurement***

The Group uses Expected credit loss ("ECL") measurement, which reflects the probability-weighted estimate of the present value of future expected credit losses. The Group applies a simplified approach to trade receivables, unbilled receivables from service charges and accrued rental income ("trade receivables") under IFRS 9 (including related party receivables), i.e. measures ECL using lifetime expected loss. The Group uses for the calculation of lifetime expected loss by applying a provision matrix that takes into account the amount of trade receivables turnover during the current period and the amount of trade receivables written off. Expected credit losses are modelled over instrument's lifetime period. The lifetime period is equal to the remaining period to maturity of debt instruments, adjusted for expected prepayments, if any.

Management models Lifetime ECL, that is, losses that result from all possible default events over the remaining lifetime period of the financial instrument. The 12-month ECL, represents a portion of lifetime ECLs that result from default events on a financial instrument that are possible within 12 months after the reporting period, or remaining lifetime period of the financial instrument if it is less than a year.

The ECLs that are estimated by management for the purposes of these financial statements are point-in-time estimates, rather than through-the-cycle estimates that are commonly used for regulatory purposes. The estimates consider forward looking information, that is, ECLs reflect probability weighted development of key macroeconomic variables that have an impact on credit risk.

**29 Financial Risk Management (Continued)**

***Significant increase in credit risk (SICR)***

The assessment whether or not there has been a significant increase in credit risk ("SICR") since initial recognition is performed on an individual basis and on a portfolio basis. For other receivables and other financial assets, SICR is assessed either on a portfolio basis or an individual basis, depending on the existence of scoring models. The criteria used to identify an SICR are monitored and reviewed periodically for appropriateness by the Group's Management.

The Group considers other receivables and other financial assets to have experienced an SICR when one or more of the following quantitative, qualitative or backstop criteria have been met:

- 30 days past due;
- the Group regularly monitors debtors with increased credit risk and considers such portfolios to have a SICR.

The level of ECL that is recognised in these consolidated financial statements depends on whether the credit risk of the debtor has increased significantly since initial recognition. This is a three-stage model for ECL measurement. A financial instrument that is not credit-impaired on initial recognition and its credit risk has not increased significantly since initial recognition has a credit loss allowance based on 12-month ECLs (Stage 1). If a SICR since initial recognition is identified, the financial instrument is moved to Stage 2 but is not yet deemed to be credit-impaired and the loss allowance is based on lifetime ECLs. If a financial instrument is credit-impaired, the financial instrument is moved to Stage 3 and loss allowance is based on lifetime ECLs.

If there is evidence that the SICR criteria are no longer met, the instrument is transferred back to Stage 1. If an exposure has been transferred to Stage 2 based on a qualitative indicator, the Group monitors whether that indicator continues to exist or has changed.

The Group has two approaches for ECL measurement: (i) assessment on an individual basis and (ii) assessment on a portfolio basis. The Group performs an assessment on a portfolio basis for trade receivables. The Group performs an assessment on an individual basis for all receivables overdue more than 365 days taking into consideration the fact whether the receivable under the review is secured by a bank guarantee/cash deposit or not. Generally, the bank guarantee is deemed to provide a sufficient assurance that the receivable will not become illiquid and therefore provisions for receivables secured by a bank guarantee are not created.

When assessment is performed on a portfolio basis, the Group determines the staging of the exposures and measures the loss allowance on a collective basis. The Group analyses its exposures by segments determined on the basis of shared credit risk characteristics. The key shared credit characteristics considered are: financial instrument type, type of customer, date of initial recognition and remaining term to maturity. The different segments also reflect differences in credit risk parameters. The appropriateness of groupings is monitored and reviewed on a periodic basis by Management.

***Forward-looking information incorporated in the ECL models***

The assessment of SICR and the calculation of ECLs both incorporate supportable forward-looking information. The Group identified certain key economic variables that correlate with developments in credit risk and ECLs. Cash flow forecasts are provided by the Board of Directors and provide the best estimate of the expected macro-economic development over the next year. The Group has considered this information, and based on the fact that most of the financial assets are current, this did not have significant impact on the consolidated financial statements.

As with any economic forecast, the projections and likelihoods of occurrence are subject to a high degree of inherent uncertainty, and therefore the actual outcomes may be significantly different to those projected. The Group considers these forecasts to represent its best estimate of the possible outcomes. The Group regularly reviews its methodology and assumptions to reduce any difference between the estimates and the actual loss of credit.

## 29 Financial Risk Management (Continued)

### *(ii) Market risk*

The Group takes on exposure to market risks. Market risks arise from open positions in (a) foreign currencies, (b) interest bearing assets and liabilities and (c) equity investments, all of which are exposed to general and specific market movements.

***Currency risk***. Due to continuous international expansion, Management acknowledges elevated exposure of the Group to foreign exchange risk arising from various currency exposures, primarily with respect to Czech Koruna, Polish Zloty, British Pound and Hungarian Forint. Foreign exchange risk arises from future commercial transactions and recognised assets and liabilities denominated in currency that is not the entity's functional currency. Therefore, internal objectives, policies and processes for its management have been set. Management has set up a policy to require group companies to manage their foreign exchange risk exposure with the group treasury. To manage their foreign exchange risk arising from future commercial transactions and recognised assets and liabilities, entities in the group use forward contracts, transacted with the help of group treasury. As a result, the Group has invested into hedging instruments, mostly forwards, that are set up to minimize foreign exchange losses.

Had the foreign exchange rates been by one tenth lower than they have been throughout the year ended 31 December 2018 with all other variables constant, profit for the year would have been approximately EUR 49.4 million lower (2017: EUR 70.8 million lower). Equity, after allowing for the tax effects, would have been EUR 39.0 million lower (2017: EUR 55.9 million lower). Had the foreign exchange rates been by one tenth higher than they have been throughout the year ended 31 December 2018 with all other variables constant, profit for the year would have been EUR 49.4 million higher (2017: EUR 70.8 million higher). Equity, after allowing for the tax effects, would have been EUR 39.0 million higher (2017: EUR 55.9 million higher).

***Interest rate risk.*** The Group takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. The group's interest rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk which is partially offset by cash held at variable rates. The table below summarises the Group's exposure to interest rate risks. The table presents the aggregated amounts of the Group's financial assets and liabilities at carrying amounts, categorised by the earlier of contractual interest repricing or maturity dates.

## 29 Financial Risk Management (Continued)

| *In millions of EUR* | Less than 12 months | Over 12 months | Total |
|---|---|---|---|
| **31 December 2018** | | | |
| Total monetary financial assets | 237.8 | 6.3 | **244.1** |
| Total monetary financial liabilities | (213.9) | (629.7) | **(843.6)** |
| **Net interest sensitivity gap at 31 December 2018** | **23.9** | **(623.4)** | **(599.5)** |
| **31 December 2017** | | | |
| Total monetary financial assets | 377.0 | 11.7 | **388.7** |
| Total monetary financial liabilities | (428.5) | (334.7) | **(763.2)** |
| **Net interest sensitivity gap at 31 December 2017** | **(51.5)** | **(323.0)** | **(374.5)** |

Had the interest rates on the Group's variable interest rate loans (generally the third-party borrowings) been by one tenth lower than they have been throughout the year ended 31 December 2018 with all other variables constant, profit before tax for the year would have been higher by approximately EUR 0.6 million (2017: EUR 0.8 million higher). Equity, after allowing for the tax effects, would have been higher by approximately EUR 0.5 million higher (2017: higher by EUR 0.6 million).

Had the interest rates on the Group's variable interest rate loans (generally the third-party borrowings) been by one tenth higher than they have been throughout the year ended 31 December 2018 with all other variables constant, profit before tax for the year would have been lower by approximately EUR 0.6 million (2017: EUR 0.8 million lower). Equity, after allowing for the tax effects, would have been lower by approximately EUR 0.5 million (2017: lower by EUR 0.6 million).

The Group's interest rate risk principally arises from long-term borrowings (Note 18). Borrowings issued at variable rates expose the Group to cash flow interest rate risk. Borrowings at fixed rates expose the Group to fair value interest rate risk.

In addition to certain borrowings with fixed interest rate, the Group's policy is to actively manage the interest rate on its variable interest borrowings in selected cases. To manage this, the Group enters into various hedging instruments such as interest rate swaps or interest rate caps in relation to the relevant borrowings.

These provisions are taken into consideration by the Group's management when pursuing its interest rate hedging policy. Trade and other receivables and Trade and other payables are interest free and with a term of less than one year, so it is assumed that there is no interest rate risk associated with these financial assets and liabilities.

The Group's interest rate risk is monitored by the Group's management on a monthly basis. The interest rate risk policy is approved quarterly by the Board of Directors. Management analyses the Group's interest rate exposure on a dynamic basis. Various scenarios are simulated, taking into consideration refinancing, renewal of existing positions and alternative financing sources. Based on these scenarios, the Group calculates the impact on profit and loss of a defined interest rate shift. The scenarios are run only for liabilities that represent the major interest-bearing positions. The simulation is done on a monthly basis to verify that the maximum potential loss is within the limits set by management.

Trade receivables and payables (other than tenant deposits) are interest-free and have settlement dates within one year.

**29 Financial Risk Management (Continued)**

***(iii) Liquidity risk***

Liquidity risk is defined as the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities.

The table below shows liabilities at 31 December 2018 by their remaining contractual maturity. The amounts disclosed in the maturity table are the contractual undiscounted cash flows. Such undiscounted cash flows differ from the amount included in the consolidated balance sheet because the carrying amount is based on discounted cash flows.

When the amount payable is not fixed, the amount disclosed is determined by reference to the conditions existing at the end of the respective reporting period. Foreign currency payments are translated using the spot exchange rate at the balance sheet date.

The maturity analysis of financial liabilities as at 31 December 2018 is as follows:

| *In millions of EUR* | **Demand and less than 12 months** | **From 1 to 2 years** | **From 2 to 5 years** | **Over 5 years** | **Total** |
|---|---|---|---|---|---|
| **Liabilities** | | | | | |
| Borrowings (principal repayments) | 120.0 | 133.7 | 401.6 | 58.8 | **714.1** |
| Borrowings (future interest payments) | 22.5 | 18.1 | 30.1 | 8.6 | **79.3** |
| Financial payables - current (Note 19) | 78.9 | - | - | - | **78.9** |
| Finance lease liability (Note 18) | - | - | 31.3 | - | **31.3** |
| Derivatives and other financial instruments (Note 19) | 1.8 | - | - | - | **1.8** |
| **Total future payments, including future principal and interest payments** | **223.2** | **151.8** | **463.0** | **67.4** | **905.4** |

The maturity analysis of financial liabilities as at 31 December 2017 is as follows:

| *In millions of EUR* | **Demand and less than 12 months** | **From 1 to 2 years** | **From 2 to 5 years** | **Over 5 years** | **Total** |
|---|---|---|---|---|---|
| **Liabilities** | | | | | |
| Borrowings (principal repayments) | 72.9 | 167.4 | 354.3 | 80.9 | **675.5** |
| Borrowings (future interest payments) | 22.9 | 21.2 | 37.7 | 11.4 | **93.2** |
| Financial payables (Note 19) | 83.7 | - | - | - | **83.7** |
| Derivatives and other financial instruments (Note 19) | 2.9 | - | - | - | **2.9** |
| **Total future payments, including future principal and interest payments** | **182.4** | **188.6** | **392.0** | **92.3** | **855.3** |

On an ongoing basis, the Board of Directors reviews a three year rolling cash flow forecast for the core real estate business on a consolidated basis. The forecast for 2019 shows positive cash flow of the Group of approximately EUR 159.2 million (2017: EUR 115.0 million). The Board of Directors is confident that the Group’s cash position allows it to keep pursuing new opportunities in its chosen markets.

## 30 Management of Capital

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

Consistent with other companies in the industry, the Group monitors capital on the Net Asset Value (adjusted) basis. The Group calculates the Net Asset Value (adjusted) on the following basis:

| *In millions of EUR* | Note | 31 December 2018 | 31 December 2017 |
|---|---|---|---|
| Equity attributable to the owners of HB Reavis Holding S.A. | | 1,258.1 | 1,194.1 |
| Adjusted for | | | |
| Add: Deferred income tax liabilities (including joint ventures) | 14, 26 | 86.0 | 80.3 |
| **Net Asset Value (adjusted) as monitored by management** | | **1,344.1** | **1,274.4** |

The Group also manages the net debt leverage ratio. This ratio is defined as a ratio between interest bearing liabilities from third parties excluding other indebtedness (Note 18(a)) less Cash and Group total assets. During 2018, the Group's strategy was to steer the net debt leverage ratio up to 35% (2017: up to 35%). As is shown in the table below, the Group's ratio was below the targeted level at the end of 2018 and 2017. The Group management believe that this position places the Group conservatively in their pursuit of new development opportunities.

| *In millions of EUR* | 31 December 2018 | 31 December 2017 |
|---|---|---|
| Borrowings less cash including those classified as held for sale | 717.7 | 613.9 |
| Total assets | 2,349.9 | 2,294.8 |
| **Net debt leverage ratio** | **30.54%** | **26.75%** |

## 31 Fair Value Estimation

IFRS 13 requires the use of valuation techniques for which sufficient data is available, maximising the use of observable inputs and minimising the use of unobservable inputs. The degree of detail of the disclosure depends on the observability of the inputs used.

For this purpose, IFRS 13 establishes a fair value hierarchy that classifies the inputs into three levels:
- Quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (Level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (Level 3).

### i) Investment properties

The following table presents the group's investment properties that are measured at fair value:

| *In millions of EUR* | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| Investment property – valuations obtained at 31 December 2018 (Note 9) | | | 1,943.3 | **1,943.3** |
| Investment property – valuations obtained at 31 December 2017 (Note 9) | - | - | 1,780.6 | **1,780.6** |

Level 3 investment properties are fair valued using discounted cash flow method, yield method, residual method, comparative method and fair value at acquisition/divestment (cost) for assets which were either acquired/held for sale close to the balance sheet date or where reliable comparable information is unavailable and management used its judgement and experience to assess the fair value. The valuation techniques for level 3 are further described in Note 9.

## 31 Fair Value Estimation (Continued)

Quantitative information about fair value measurements using unobservable inputs:

**Asset Management and Investment Management**

| Segment | Valuation technique | Fair value 31 Dec 2018 (in millions of EUR) | Fair value 31 Dec 2017 (in millions of EUR) | Input | Range 31 Dec 2018 | Range 31 Dec 2017 |
|---|---|---|---|---|---|---|
| **Slovakia** | | | | | | |
| Office | Discounted cash flow | 120.3 | 121.3 | Average annual rent in EUR per sqm<br>Discount rate p.a.<br>Capitalisation rate for terminal value | 189 - 200<br>7.65%<br>6.9% | 191.5<br>7.65%<br>6.9% |
| Office | Direct capitalisation method | 254.2 | 138.0 | Average annual rent in EUR per sqm<br>Capitalisation rate | 138 – 200<br>5.8% - 8.2% | 180 – 186<br>6.0% - 8.0% |
| **Total** | | **374.5** | **259.3** | | | |
| **Czech Republic** | | | | | | |
| Office | Direct capitalisation method | - | 89.0 | Average annual rent in EUR per sqm<br>Capitalisation rate | -<br>- | 167.0<br>6.0% |
| **Total** | | **-** | **89.0** | | | |
| **Poland** | | | | | | |
| Office | Direct capitalisation method | - | 277.2 | Average annual rent in EUR per sqm<br>Capitalisation rate | -<br>- | 195.0-231.0<br>5.8% -7.2% |
| Office | Discounted cash flow | 85.5 | - | Average annual rent in EUR per sqm<br>Discount rate p.a.<br>Capitalisation rate for terminal value | 190.4<br>6.5%<br>7.5% | -<br>-<br>- |
| Office | At cost | 0.2 | - | - | - | - |
| **Total** | | **85.7** | **277.2** | | | |

## 31 Fair Value Estimation (Continued)

| Segment | Valuation technique | Fair value 31 Dec 2018 (in millions of EUR) | Fair value 31 Dec 2017 (in millions of EUR) | Input | Range 31 Dec 2018 | Range 31 Dec 2017 |
|---|---|---|---|---|---|---|
| **Asset Management and Investment Management (Continued)** | | | | | | |
| **Hungary** | | | | | | |
| Office | Direct capitalisation method | 9.5 | - | Average annual rent in EUR per sqm | 90.8 | - |
| | | | | Capitalisation rate | 7.0% | - |
| **Total** | | **9.5** | **-** | | | |
| **United Kingdom** | | | | | | |
| Office | Residual value | 281.7 | 281.8 | Capitalised net revenues less cost to completion | 619.5 | 694 |
| | | | | Capitalisation rate | 4.75% | 4.75% - 5.0% |
| Office | Direct capitalisation method | 123.1 | - | Average annual rent in EUR per sqm | 791.0 | - |
| | | | | Capitalisation rate | 4.5% | - |
| **Total** | | **404.8** | **281.8** | | | |
| **Total for segment** | | **874.5** | **907.3** | | | |
| **Development in realisation and in preparation** | | | | | | |
| **Slovakia** | | | | | | |
| Office, Office/Retail | Residual Method | 125.5 | 153.1 | Capitalised net revenues less cost to completion | 231.7 | 217.3 |
| | | | | Capitalisation rate | 6.2% - 6.5% | 6.25% - 6.75% |
| Retail | Residual Method | 120.5 | 75.0 | Capitalised net revenues less cost to completion | 69.8 | 72.0 |
| | | | | Capitalisation rate | 5.5% | 5.5% |
| **Total** | | **246.0** | **228.1** | | | |

The average annual rate provided includes the Estimated Market Rental Value (EMRV) i.e. the open market rent of each space (not necessarily equal to the current passing rent) of the property, including rental income from office and retail space but including ancillary income from storage, parking, signage, technology and other income divided by square meters of lettable office, retail and storage space.

## 31 Fair Value Estimation (Continued)

| Segment | Valuation technique | Fair value 31 Dec 2018 (in millions of EUR) | Fair value 31 Dec 2017 (in millions of EUR) | Input | Range 31 Dec 2018 | Range 31 Dec 2017 |
|---|---|---|---|---|---|---|
| **Development in realisation and in preparation (Continued)** | | | | | | |
| **Czech Republic** | | | | | | |
| Office | Residual Method | 61.8 | 22.5 | Capitalised net revenues less cost to completion | 130.4 | 64.8 |
| | | | | Capitalisation rate | 5.8% - 6.5% | 6.0% - 7.25% |
| Office | Direct capitalisation method | - | 20.3 | Average annual rent in EUR per sqm | 206.2 | 204.0 |
| | | | | Capitalisation rate | 5.0% | 5.0% |
| Office | At cost | - | 2.0 | - | | - |
| Retail | Residual Method | - | 12.2 | Capitalised net revenues less cost to completion | - | 24.4 |
| | | | | Capitalisation rate | - | 7.0% |
| Logistics | At cost | 0.2 | - | - | | |
| **Total** | | **62.0** | **57.0** | | | |
| **Poland** | | | | | | |
| Office | Residal Method | 431.8 | 306.5 | Capitalised net revenues less cost to completion | 261.0 | 296.2 |
| | | | | Capitalisation rate | 4.8% - 5.8% | 5.24% - 6.0% |
| Office | At cost | 16.7 | 12.4 | - | - | - |
| **Total** | | **448.4** | **318.9** | | | |
| **United Kingdom** | | | | | | |
| Office | Residual method | - | 157.3 | Capitalised net revenues less cost to completion | - | 56.4 |
| | | | | Capitalisation rate | - | 4.65% |
| Office | At cost | 57.8 | - | - | - | - |
| **Total** | | **57.8** | **157.3** | | | |

## 31 Fair Value Estimation (Continued)

| Segment | Valuation technique | Fair value 31 Dec 2018 (in millions of EUR) | Fair value 31 Dec 2017 (in millions of EUR) | Input | Range 31 Dec 2018 | Range 31 Dec 2017 |
|---|---|---|---|---|---|---|
| **Development in realisation and in preparation (Continued)** | | | | | | |
| **Hungary** | | | | | | |
| Office | Comparative method | - | 8.5 | Price in EUR per sqm | - | 808.0 |
| Office | Residual method | 105.0 | 67.1 | Capitalised net revenues less cost to completion<br>Capitalisation rate | 90.9<br>6.0% | 95.7<br>6.25% |
| Office | At cost | 13.3 | - | - | | |
| **Total** | | **118.3** | **75.6** | | | |
| **Germany** | | | | | | |
| Office | At cost | 92.2 | - | - | - | - |
| **Total** | | **92.2** | **-** | | | |
| **Total for segment** | | **1,024.7** | **836.9** | | | |
| **None - core** | | | | | | |
| Logistics | Comparative method | 29.5 | 36.0 | Price in EUR per sqm | 4.7 – 26.2 | 4.3 – 26.1 |
| Retail | At cost | 14.6 | 0.4 | - | - | - |
| **Total for segment** | | **44.1** | **36.4** | | | |

**31 Fair Value Estimation (Continued)**

**Sensitivity of measurement to variance of significant unobservable inputs**

A decrease in the estimated annual rent will decrease the fair value. An increase in the discount rates and the capitalisation rates (used for terminal value of DCF and for the direct capitalisation method) will decrease the fair value.

There are interrelationships between these rates as they are partially determined by market rate conditions. Please refer to Note 3 for the quantitative sensitivity analysis.

**Valuation process**

The valuations of the properties are performed twice a year on the basis of valuation reports prepared by independent and qualified valuers.

These reports are based on both:

- information provided by the company such as current rents, terms and conditions of lease agreements, service charges, capital expenditure, etc. This information is derived from the company's financial and property management systems and is subject to the company's overall control environment.
- assumptions and valuation models used by the valuers – the assumptions are typically market related, such as yields and discount rates. These are based on their professional judgment and market observation. Generally, for income producing assets a DCF and direct capitalisation methods are used, for assets under construction residual method is used and comparative methodology is used for non-core and land bank assets.

The information provided to the valuers - and the assumptions and the valuation models used by the valuers - are reviewed by the controlling department and the Group Chief Financial Officer ('CFO'). This includes a review of fair value movements over the period.

**ii) Financial Instruments**

Fair value of a financial instrument is the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced sale or liquidation, and is best evidenced by an active quoted market price. The estimated fair values of financial instruments have been determined by the Group using available market information, where it exists, and appropriate valuation methodologies as described below. However, judgement is necessarily required to interpret market data to determine the estimated fair value.

***Financial assets carried at amortised cost.*** The fair value of floating rate instruments is normally their carrying amount. The estimated fair value of fixed interest rate instruments is based on estimated future cash flows expected to be received discounted at current interest rates for new instruments with similar credit risk and remaining maturity. Discount rates used depend on credit risk of the counterparty.

***Liabilities carried at amortised cost.*** Considering that most borrowings have variable rate of interest and that own credit risk of the Group did not materially change, the amortised cost carrying value approximates fair value. The fair value of liabilities repayable on demand or after a notice period ("demandable liabilities") is estimated as the amount payable on demand, discounted from the first date that the amount could be required to be paid. The discount rate was 2.25% p.a. (2017: 2.82% p.a.). Refer to Note 18 for the estimated fair values of borrowings (for current borrowings Level 2 inputs are used, for non-current borrowings Level 3 inputs are used). Carrying amounts of trade and other payables approximate fair values.

***Financial derivatives.*** The fair values of derivatives are based on counterparty bank quotes and are considered level 2 valuations. The fair value was estimated using the discounted cash flows technique.

**32 Reconciliation of Classes of Financial Instruments with Measurement Categories**

For the purposes of measurement, IFRS 9 "*Financial Instruments*" classifies financial assets into the following categories: (a) financial assets at FVTPL; (b) debt instruments at FVOCI, (c) equity instruments at FVOCI and (c) financial assets at AC. Financial assets at FVTPL have two sub-categories: (i) assets mandatorily measured at FVTPL, and (ii) assets designated as such upon initial recognition or subsequently. In addition, finance lease receivables form a separate category.

All of the Group's financial assets belong to the category financial assets at amortised cost except for financial derivatives that are classified as financial assets at FVTPL. All of the Group's financial liabilities are carried at amortised cost except for financial derivatives that are classified as financial liabilities at FVTPL (Note 19).

For the purposes of measurement at 31 December 2017, IAS 39, *Financial Instruments: Recognition and Measurement*, classifies financial assets into the following categories: (a) loans and receivables; (b) available-for-sale financial assets; (c) financial assets held to maturity and (d) financial assets at fair value through profit or loss ("FVTPL"). Financial assets at fair value through profit or loss have two subcategories: (i) assets designated as such upon initial recognition, and (ii) those classified as held for trading.

## 32 Reconciliation of Classes of Financial Instruments with Measurement Categories (Continued)

All of the Group's financial assets as at 31 December 2017 belonged to the category loans and receivables except for financial derivatives that were classified as held for trading. All of the Group's financial liabilities were carried at amortised cost except for financial derivatives that were classified as held for trading (Note 19).

## 33 Consolidated Structured Entities

As at 31 December 2016 the Group held less than 50% of voting rights in a HB REAVIS CE Real Estate Investment Fund a sub-fund of a fully consolidated subsidiary HB Reavis Real Estate SICAV-SIF, the Fund (Note 1). The Group had the power over this sub-fund through asset management contractual arrangements with the General Partner of this Fund, HB Reavis Investment Management S.à r.l. In January 2017 the Group lost control over the sub-fund and since that date the Group's interest in the structure is recognised as a financial investment.

The Group issued 2 tranches of bonds through HB Reavis Finance PL 2 Sp. z o.o. incorporated in Poland, 1 tranche of bonds through HB REAVIS Finance SK s. r. o., 1 tranche of bonds through HB REAVIS Finance SK II s. r. o., 4 tranches of bonds through HB REAVIS Finance SK III s. r. o., 1 tranche of bonds through HB REAVIS Finance SK IV s. r. o., all four incorporated in Slovakia and 1 tranche of bonds through HB Reavis Finance CZ, s.r.o., incorporated in Czech Republic. These entities were consolidated as they are wholly owned by the Group, they were specifically set up for the purposes of the Group, and the Group has exposure to substantially all risks and rewards through ownership and outstanding guarantees of the entities' obligations. The Group guarantees all obligations of these entities represented by the bonds issued amounting to PLN 320 million, EUR 203 million and CZK 1.25 billion (Note 18).

## 34 Events after the End of the Reporting Period

After 31 December 2018 and up to date of authorization of these consolidated financial statements the Group has drawn EUR 71.3 million of the facilities undrawn as of 31 December 2018 and signed new credit facilities amounting to EUR 350.0 million which have not been drawn by the Group, and repaid the loan of EUR 14.0 million. The Group also issued new tranche of bonds in the amount of EUR 15.0 million.

In January 2019, share premium distribution to shareholder in amount of EUR 27.0 million was declared, of which EUR 12.3 million has already been paid in the first quarter of 2019.

On 5 February 2019 the Group has announced a plan to start the sale of stand-alone projects in the Czech Republic that are not sizeable enough to make them suitable for the Group's strategy. The group will continue developing its project in the Czech Republic's second biggest city, Brno and will also continue the expansion of its successful network of co-working facilities that operate under the HubHub brand.

In February 2019, the Group completed the sale of 100% shares in its subsidiary HB REAVIS Buda Project Kft. The subsidiary owned the office building BEM Palace in Budapest, Hungary. Carrying value of the investment property disposed of was EUR 13.3 million.

There were no other material events, which occurred after the end of the reporting period which have a bearing on the understanding of these consolidated financial statements.