

ATLAS ESTATES LIMITED  
CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2017

Atlas Estates Limited  
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# ATLAS ESTATES LIMITED

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# **ATLAS ESTATES LIMITED**

## **Introduction**

Atlas Estates Limited (“Atlas” or the “Company”) is a Guernsey incorporated closed-ended investment company investing in real estate in Central and Eastern European countries (“CEE”). Atlas shares were admitted to trading on 12 February 2008 on the Warsaw Stock Exchange (WSE).

The Company and its subsidiary undertakings (the “Group”) invest mainly in real estate assets in Poland. The Group also operates in the Hungarian, Romanian and Bulgarian real estate markets.

The Company’s assets are managed by Atlas Management Company Limited (“AMC”, the Property Manager), a company focused on managing the Group’s property portfolio. AMC provides the Group with a management team with vast experience and knowledge of real estate investment and development. In particular AMC can demonstrate a good track record of investment, development and management of property in CEE markets.

# ATLAS ESTATES LIMITED

## Financial Highlights

Selected Consolidated Financial Items	Year ended 2017	Year ended 2016
	€'000	€'000
Revenues	35,435	32,671
Gross profit	12,721	13,288
(Decrease)/ Increase in value of investment properties	(4,748)	3,317
(Loss)/ Profit from operations	(7,659)	10,094
Profit before tax	11,887	3,131
Profit for the period	11,587	2,296
Net cash from operations	21,248	2,382
Net cash (used in)/ from investing activities	(907)	670
Net cash used in financing activities	(13,930)	(14,009)
Net increase/ (decrease) in cash	6,906	(11,498)
Non-current assets	190,894	185,020
Current assets	37,999	31,500
Total assets	228,893	216,520
Current liabilities	(54,904)	(78,717)
Non-current liabilities	(88,925)	(69,564)
Total liabilities	(143,829)	(148,281)
Basic net assets (1)	85,064	68,239
Number of shares outstanding	46,852,014	46,852,014
Profit per share (eurocents)	24.7	4.9
Basic net asset value per share (€)	1.8	1.5
Adjusted net assets (2)	110,408	82,558
Adjusted net asset value per share (€)	2.4	1.8

(1) "Basic net assets" represent net assets value as per the consolidated balance sheet

(2) "Adjusted net asset value" includes valuation gains net of deferred tax on development properties held in inventory and land held under operating leases, but not recognised at fair value in the balance sheet (see page 7 and 15).

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## Chairman's Statement

Dear Shareholders,

I am pleased to report the consolidated financial results for Atlas Estates Limited ("Atlas" or "the Company") and its subsidiary undertakings ("the Group") for the year ended 31 December 2017.

In the current financial market conditions key priorities are enhancing liquidity, gaining access to capital as well as acquisition of new land banks. All of these objectives are vital for operations as they will underpin our drive to progress the projects we currently have under development through to completion, whilst at the same time supporting growth of the operations.

Despite the challenging environment, the Group was able to achieve several key objectives:

- On 19 September 2017 the Group fulfilled all the conditions from the agreement reached with Erste Group Bank AG on 14 September 2016. At the completion of this transaction Erste Group Bank AG transferred the outstanding facility extended to *Millennium Plaza* project (amounting to €19.5 million) to Atlas Group at the discounted transfer price of €1. As a result the Group recorded a finance income of €19.5 million in the consolidated financial statements for 2017 (for further details please refer to page 11);
- Moreover, prior to the completion of the above described transaction, on 13 September 2017 the Group arranged new financing for *Millennium Plaza* project which was extended by Bank Zachodni WBK S.A. until 2022 (for further details please refer to page 11- New loan). This was a significant achievement for the Group as it enabled the completion of the restructuring of the Erste Group Bank AG debts portfolio that had started already in 2010;
- in August 2017 the Group completed construction of the second stage of *Apartamenty przy Krasińskiego* development project in Warsaw and fully repaid €2.2 million bank facility extended to this project. Apartments' pre sales reached 96% as of 31 December 2017.

## Reported Results

As of 31 December 2017 the Group has reported basic net assets of €85.1 million.

The increase of basic net asset value by €16.8million from €68.2 million as at 31 December 2016 is primarily a result of a profit before tax reported by the Group in the amount of €11.9 million as well as gains reported in other comprehensive income of €5.2 million.

The main factors of the increase are:

- €19.5 million the above mentioned bank loan discount; and
- € 7.5 million net gain on exchange differences; offset by:
- €4.7 million fair value losses on investment properties recorded as at 31 December 2017; and
- €8.6 million performance fee due to the Property Manager.

Other contributions to net assets not recognized in net profit is €1.7 million revaluation of hotels recorded as at 31 December 2017.

Profit after tax amounts to €11.6 million for 2017 as compared to profit after tax of €2.3 million for 2016. The significant change of the noted results was mainly a joint effect of:

- the above described bank loan discount of €19.5 million resulting in finance income increasing from €0.1 million in 2016 to €19.9 million in 2017,
- favourable movements in the foreign currency exchange differences from a loss of €3.0 million in 2016 to a gain of €3.0 million in 2017 mainly as a result of the depreciation of PLN against the EURO in 2016 as compared to appreciation of PLN against EURO in 2017, offset by :
- €8.6 million incentive fee charged by the Property Manager as a result of the improvement of the Group's performance (as disclosed on page 33);
- movement in valuation of investment properties from an increase of €3.3 million in 2016 to decrease of €4.7 million in 2017 mainly due to change in valuation of *Millennium Plaza*.

# ATLAS ESTATES LIMITED

## Financing, Liquidity and Forecasts

The Directors consider that the current outlook presents operating as well as financing challenges in the sector in which the Group operates.

The Group's forecasts and projections have been prepared taking into account the economic environment and its challenges and mitigating factors. These forecasts incorporate management's best estimate of future trading performance, potential sales of properties and the future financing requirements of the Group.

While there will always remain some inherent uncertainty within the aforementioned cash flow forecasts, the Directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence and to manage its loan facilities for the foreseeable future. Accordingly, the Directors continue to adopt the going concern basis in preparing the consolidated financial statements for the year ended 31 December 2017, as set out in note 1.

## Investing Policy

Atlas invests mainly in Poland in a portfolio of real estate assets across a range of property types, where approximately 87% of its assets are located. We actively target Poland, where the economy is believed to be the most attractive amongst CEE economies. The Group also operates in the Hungarian, Romanian and Bulgarian real estate markets.

We invest both on our own and, where appropriate, with joint venture partners in residential, industrial, retail, office and leisure properties in order to create an appropriately balanced portfolio of income-generating properties and development projects.

We may employ leverage to enhance returns on equity. Wherever possible, the Directors intend to seek financing on a non-recourse, asset by asset basis. The Company has no set limit on its overall level of gearing. However, it is anticipated that the Company shall employ a gearing ratio of up to 80% of the total value of its interest in income-generating properties within its property portfolio.

## Net Asset Value ("NAV") and Adjusted Net Asset Value ("Adjusted NAV")

As of 31 December 2017, NAV per share, as reported in the consolidated financial statements which have been prepared in accordance with International Financial Reporting Standards ("IFRS"), as adopted by the EU, increased from the level of €1.5 per share at 31 December 2016 to €1.8 per share at 31 December 2017. The adjusted NAV per share, which includes valuation gains, net of deferred tax on development properties held in inventory, at the lower of cost and net realisable value, and land held under operating lease, but not recognised at fair value in the balance sheet, also increased from €1.8 as of 31 December 2016 to €2.4 as of 31 December 2017. The increase of NAV per share is mainly attributable to the above described €19.5 million bank loan discount net of impact of the property manager's performance fee, whereas the improvement of adjusted NAV per share is additionally impacted by the increase of the valuation of *Atlas Estates Tower* (land located in central area of Warsaw with zoning for an office/residential tower).

A valuation of the entire property portfolio is carried out on an annual basis by external and internal experts. The internal valuations calculated by the Property Manager concerned only completed development projects in Warsaw. The results of these internal valuations were not reflected in net assets as presented in the consolidated statement of financial position since these projects are classified as inventory and there is no need to impair these balances.

As of 31 December 2017 the following external independent qualified experts were engaged:

- Jones Lang LaSalle responsible for the valuation of properties located in Poland and Romania,
- FHB Ingatlan Zrt responsible for the valuation of properties located in Hungary.

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## Adjusted net assets

A key indicator of performance is the adjusted net asset value of the Group. The following table sets out the impact on adjusted NAV per share of the revaluation of land assets that cannot be reflected in the reported balance sheet due to accounting standards.

	Book cost to Group as shown in the Balance Sheet €'000	Independent* Value at 31 December 2017 €'000	Change €'000
Development land assets and land held under operating lease included in total assets at cost to the Group	30,947	62,236	31,289
Attributable to non-controlling interest partners	-	-	-
<b>Company share of increase in valuations of development land and land held under operating lease</b>	<b>30,947</b>	<b>62,236</b>	<b>31,289</b>
Deferred tax on increase in valuation of development land and land held under operating lease at local rates			(5,945)
Basic net asset value per balance sheet			85,064
<b>Adjusted net asset value (see page 15)</b>			<b>110,408</b>
Number of ordinary shares in issue at 31 December 2017			46,852,014
<b>Adjusted net asset value per share as at 31 December 2017</b>			<b>€2.4</b>
Adjusted net asset value per share as at 31 December 2016			€1.8

\* includes effect of internal valuation of unsold development units

Further analysis of the Company's NAV is contained in the Property Manager's review below.

## Corporate Governance

Atlas ensures that the Group applies a robust corporate governance structure, which is vital in the current economic conditions. This is important as there is a clear link between high quality corporate governance and Shareholder value creation. Details are presented on page 24 in Corporate governance review. A statement on Atlas compliance with the corporate governance recommendations and principles contained in Best Practice for WSE listed companies is presented on Atlas' corporate website.

## Risks and uncertainties

The Board and the Property Manager continually assess and monitor the key risks of the business. The principal risks and uncertainties that could have a material impact on the Group's performance are summarised in the Property Manager's Review on pages 15 and 16 below.

## Changes in Board of Directors

There were no changes in Board of Directors as disclosed in the Director's Report.

## Prospects

Following the completion of the financial restructuring of Erste Group Bank AG debts portfolio, the Group was able to reduce significantly the Group's total bank indebtedness from €120.3m as of 31 December 2016 to €93.5m as of 31 December 2017. With the ongoing economic development in Poland we can now focus on strengthening as well as expanding our real estate portfolio including development of additional residential units.

**Mark Chasey**

**CHAIRMAN**

26 March 2018

# ATLAS ESTATES LIMITED

## Review of the Property Manager

In this review we present the financial and operating results for the year ended 31 December 2017. Atlas Management Company Limited ("AMC") is the Property Manager appointed by the Company to oversee the operation and management of Atlas' portfolio and advice on new investment opportunities. At 31 December 2017, the Company held a portfolio of sixteen properties comprising seven investment properties of which five are income yielding properties, two are held for capital appreciation, two hotels and seven development properties.

It could be a long road to recovery for the real estate market in Central & Eastern Europe (CEE). As a result of these uncertainties and changing conditions, management has taken measures to mitigate risks across the portfolio. This has included reducing costs and staffing levels and putting on hold higher risk investment activity. Nevertheless, key development projects have been completed on time and new developments have commenced.

## Markets and Key Properties

### Poland

This is the major market of operation for the Group, with 87% (by value) of the Group's portfolio located there. The Polish economy has been one of most resilient economies in Europe with annual real GDP growth of 3.8% in 2017 (2.6% in 2016).

### Hilton Hotel, Warsaw

The Hilton hotel in the Wola district of Warsaw is the Group's flagship asset. The hotel is continuously performing at a satisfactory level.

### Millennium Plaza, Warsaw

The *Millennium Plaza* is a 39,138 sqm office and retail building centrally located in Warsaw with occupancy rate of 77% as of 31 December 2017 (80% as of 31 December 2016). The Group has recently completed its refinancing and has embarked on a renovation project of some of the public spaces.

### Sadowa, Gdańsk

The *Sadowa* office building is a 6,872 sqm office building in Gdańsk. During the last 12 months its occupancy ratio increased from 68% as of 31 December 2016 to 80% as of 31 December 2017.

### Atlas Estates Tower

The Group plans to build a mixed use (residential and office) Atlas Estates Tower, on the neighbouring plot alongside the *Hilton* hotel, which will further enhance the attractiveness of this site.

### Galeria Platinum Towers

Commercial area on the ground and first floors of Platinum Towers with 1,904 sqm of gallery and 208 parking places almost fully let to tenants.

### Apartamenty przy Krasińskiego

*Apartamenty przy Krasińskiego* project is a development in the Żoliborz district of Warsaw.

The first stage of this development included 303 apartments as well as parking and amenities and retail facilities. The construction of the first stage was completed in 2013. As of 31 December 2017 all apartments were sold with only 2 retail units available for sale.

The second stage of this successful development project released 123 apartments as well as parking and retail facilities. The construction commenced in November 2015 and was completed in August 2017. As of 31 December 2017 only 3 retail units and 5 apartments were available for sale. Remaining apartments and retails were either sold (8 apartments and 1 retail) or presold (110 apartments and 4 retails).



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## Capital Art Apartments

The *Capital Art Apartments* project in Warsaw is another development in Warsaw close to the city center. It is a four stage development with 784 apartments as well as parking and amenities, including retail facilities. As of 31 December 2017 all apartments from all stages were either sold or presold, whereas 3 retail units remain available for sale and one is presold.

## Nakielska Apartments Project

This is a residential development that will consist of two stages which will release around 250 apartments as well as parking and retail facilities.

## Hungary

In Hungary, as of 31 December 2017, the Group owned one income yielding property, Ikarus Business Park, located in Budapest. In September 2017 the Group completed the sale of *Atrium homes*- development land located in Budapest.

## Romania

The Group's portfolio contains three properties in Romania, including the *Golden Tulip* hotel and two significant land banks – Voluntari and Solaris. The Romanian real annual GDP increased by 5.5% in 2017 (GDP increased by 4.8% in 2016). Despite the difficult trading conditions, occupancy rates at the Golden Tulip improved from 70% for 2016 to 71% for 2017.

## Bulgaria

The Group holds one income yielding property in Bulgaria, the Atlas House, which is a ca. 3,500 sqm office building in Sofia.

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## Financial Review

The on-going analysis of the economics of the region and the key measures of the sectors in which the Group operates are vital to ensure it does not become overexposed to, or reliant on, any one particular area. AMC evaluates the risks and rewards associated with a particular country, sector or asset class, in order to optimise the Company's return on investment and therefore the return that the Company is able to deliver to Shareholders over the longer term.

### Portfolio valuation

A valuation of the entire property portfolio is carried out on an annual basis as described on page 6.

### Loans

As at 31 December 2017, the Group's bank debt associated with its portfolio was €94 million (31 December 2016: €120 million). Loans, valuations and Loan to Value ratios ("LTV") for those periods in which valuations were undertaken may be analysed as follows:

	31 December 2017			31 December 2016		
	Loans € millions	Valuation € millions	LTV Ratio %	Loans € millions	Valuation € millions	LTV Ratio %
Investment property	44	81	54%	69	82	84%
Hotels	50	93	54%	49	87	56%
Development property in construction	-	-	-	2	10	20%
<b>Total</b>	<b>94</b>	<b>174</b>	<b>54%</b>	<b>120</b>	<b>179</b>	<b>67%</b>

The valuations in the table above differ from the values included in the consolidated balance sheet as at 31 December 2017 and 31 December 2016 due to the treatment under IFRS as adopted by the EU of land held under operating leases and development property that are held at cost.

LTV ratio of investment property significantly decreased to the level of 54% as of 31 December 2017 (as compared to 84% as of 31 December 2016) due to the completion of the settlement reached with Erste Group Bank AG concerning *Millennium Plaza* financing (as disclosed on page 10).

LTV ratio of hotels slightly decreased to 54% as of 31 December 2017 from 56% as of 31 December 2016 mainly due to partial repayment of loan facilities.

As of 31 December 2017 LTV ratio of development property in construction is nil since the only bank facility extended to the development project was repaid in August 2017.

The gearing ratio is 48% based upon net debt as a percentage of total capital (net debt plus equity attributable to equity holders). The ratio improved as compared to 31 December 2016 (62%) mainly due to the significant finance income of €19.5 million realised on the settlement reached with Erste Bank financing *Millennium Plaza*.

### Debt financing

#### *Portfolio of cross collateralised banking facilities extended by Erste Group Bank AG*

In 2016 the Group had a facility extended to Atlas Estates Millennium Sp. z o.o. ("Millennium") by Erste Group Bank AG that had been cross collateralized. On 14 September 2016 (at which point this debt amounted to €58.9 million) the Group signed with Erste bank the agreement based on which by 29 September 2017 the bank was obliged to sell/transfer to Atlas Projects B.V. (subsidiary of Atlas Estates Limited) its outstanding facility due from Millennium at the price of €1 subject mainly to the following conditions:

1) repayment by or on behalf of Millennium and receipt by the bank of principal in the aggregate amount of €39,500,000 with interests indicated in this agreement in the following four instalments:

- €8,075,000 to be paid by 10 business days after the signing of this agreement - this amount was paid by Millennium in September 2016;
- €3,950,000 by 30 November 2016 - this amount was paid by Millennium in November 2016;
- €3,950,000 by 31 March 2017 - this amount was paid by Millennium in March 2017;
- €23,525,000 by 29 September 2017 - this amount was paid by Millennium in September 2017.

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2) payment by Atlas Projects B.V. of the amount of €1 for the outstanding facility of €19.5 million- this price was paid by Atlas Project B.V. in September 2017. This debt was converted into equity of Millennium in December 2017 (at the date of issuing this report this is awaiting registration).

In September 2017- i.e. upon completion of the transfer of this facility to Atlas Project BV:

- Erste bank relinquished all mortgage, lien, charge pledge, promissory note, letter of comfort or other security interest or any other type of guarantee granted by Millennium and/or third party for the benefit of Erste bank to secure the claims of the bank against Millennium. Moreover, upon the completion of this transfer Erste Bank is no longer entitled to the Price Adjustment (defined above).
- Atlas Estates Limited in its consolidated financial statements recorded finance income of €19.5 million (see note 7) representing bank debt discount resulting from this transaction.

### *New loan – Millennium Plaza*

On 13 September 2017 Millennium signed a new loan agreement with Bank Zachodni WBK S.A. based on which it was able to borrow €23.5 million to pay the final instalment to Erste Bank AG (as described above). As of 31 December 2017 this bank facility amounts to €23.0 million (net of unamortized part of arrangement fee paid) and the final repayment date of this facility is September 2022. In 2017 €0.3 million was repaid in respect of this loan.

### *Repaid Loan - Apartamenty przy Krasińskiego II*

In February 2016 Atlas Estates (Przasnyska 9) Sp. z o.o. was granted a loan (up to the amount of PLN 42.9 million) for the construction of the second stage of *Apartamenty przy Krasińskiego* project in Warsaw. The first draw down of the loan took place in the third quarter of 2016. €2.2 million loan was fully repaid in August 2017.

### *Hungarian loan*

In the preparation of the consolidated financial statements as of 31 December 2017, the Directors have classified the loan facility extended to a Hungarian subsidiary totalling €12.9 million as current since it is overdue. In 2017 €0.7 million was repaid in respect of this loan. The Group is in discussion with the bank regarding restructuring of this loan.

### *Other loans- partial repayments*

In 2017 the Group paid €2.1 million in respect of scheduled partial repayments of other loans extended to the Group's projects (*Hilton* and *Golden Tulip* hotels, *Sadowa* and *Properpol* office buildings).

### *Subsequent events- loan facility extension*

On 25 January 2018 Properpol Sp. z o.o. (the Company's subsidiary) signed an amendment agreement with mBank S.A. to the facility agreement dated 2 September 2013 based on which the final repayment date of the facility was extended from 30 June 2018 to 30 June 2021. As of 31 December 2017 this facility amounted to €3.7 million and is used for financing of *Galeria Platinum Towers* project.

### *Subsequent events- amount increase of the existing loan facility*

On 7 February 2018 the Company's subsidiaries: Mantezja 3 Sp. z o.o. and HGC Gretna Investments Sp. z o.o. Sp. J., which operate *Hilton* hotel in Warsaw concluded an annex with Bank Pekao S.A. and PEKAO Bank Hipoteczny S.A. to the existing loan facility agreement dated 29 June 2015 based on which the total outstanding amount of the facility was increased. The subsidiaries are allowed to borrow additional funds from tranche C up to the amount of €3.5 million for financing *Hilton* expenses or other Atlas projects increasing a total facility of €51.1m. As of 31 December 2017 total loan facility from tranche A and B amounted to €47.6 million.

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## Review of the operational performance and key items in the Consolidated Income Statement

	Property Rental € millions	Development Properties € millions	Hotel Operations € millions	Other € millions	Year ended 31 December 2017 € millions	Year ended 31 December 2016 € millions
Revenue	10.3	5.5	19.6	-	35.4	32.7
Cost of operations	(4.5)	(5.8)	(12.4)	-	(22.7)	(19.4)
<b>Gross profit/ (loss)</b>	5.8	(0.3)	7.2	-	12.7	13.3
Administrative expenses	(0.8)	(0.5)	(3.1)	(11.2)	(15.6)	(6.7)
<b>Gross profit/ (loss) less administrative expenses</b>	5.0	(0.8)	4.1	(11.2)	(2.9)	6.6
Gross profit/ (loss) %	56%	-5%	37%	0%	36%	41%
Gross profit/ (loss) less administrative expenses %	49%	-15%	21%	0%	-8%	20%

The financial analysis of the consolidated income statement set out in the table reflects the monitoring of operational performance by segment as used by management.

### Revenues and cost of operations

Total Group revenues for year ended 31 December 2017 were €35.4 million compared to €32.7 million for the year ended 31 December 2016. The Group's principal revenue streams are from its hotel operations, property rental and from the sale of the residential apartments that the Group develops. As the Group maintains a diversified portfolio of real estate investments, seasonality or cyclical nature of yielded income or results is also highly diversified.

Cost of operations were €22.7 million in 2017 compared to €19.4 million in 2016.

### Development Properties

	Year ended 31 December 2017 € millions	Year ended 31 December 2016 € millions	Total change 2017 v 2016 € millions	Translation foreign exchange gain/ (loss) 2017 € millions	Operational change 2017 v 2016 € millions
Revenue	5.5	2.8	2.7	-	2.7
Cost of operations	(5.8)	(2.3)	(3.5)	-	(3.5)
Gross (loss)/ profit	(0.3)	0.5	(0.8)	-	(0.8)
Administrative expenses	(0.5)	(0.5)	-	-	-
Gross (loss)/ profit less administrative expenses	(0.8)	-	(0.8)	-	(0.8)
Gross (loss)/ profit %	-5%	18%			
Gross (loss)/ profit less administrative expenses %	-15%	0%			

Proceeds from the sale of residential units (i.e. apartments, retail units, parking places, storages) developed by the Group are only recognised when the units have been handed over to new owners with notarial deed signed. At this moment the economic risks and rewards are transferred to the new owner and in accordance with the Group's accounting policy, the revenue and associated costs of these residential units are recognised in the income statement. In 2017 the Group, following a completion of *Apartamenty przy Krasińskiego stage II* project in August 2017, has started signing notarial deeds and consequently recognised first sales and associated costs of this project.

The gross loss realised in 2017 as compared to breaking even in 2016 is mainly a result of a sale of Hungarian development project (Atrium homes) in the third quarter of 2017. The sale was completed at a loss due to poor economic conditions in this market.

Additionally, as presented in the table below, in 2017 the Group managed to complete the sale of 10 apartments (in *Capital Art Apartments I&II* projects and *Apartamenty przy Krasińskiego stage II*), whereas in 2016 the revenues from the sale of 17 apartments (in *Capital Art Apartments III&IV*, *Apartamenty przy Krasińskiego stage I*) projects were recognized.

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## Apartment sales in Warsaw

	CAA stage I	CAA stage II	CAA stage III&IV	Apartamenty przy Krasieńskiego I	Apartamenty przy Krasieńskiego II	Concept House*
Total apartments for sale	219	300	265	303	123	160
Sales completions in 2008-2015	218	297	249	302	-	156
Sales completions in 2016	-	-	16	1	-	3
Sales completions in 2017	1	1	-	-	8	1
Total sales completions	219	298	265	303	8	160
Sales not completed as of 31 December 2017 (only preliminary agreements concluded)	-	2	-	-	110	-
Apartments available for sale as of 31 December 2017	-	-	-	-	5	-

\*Joint venture project fully sold out as at 31 December 2017

## Property Rental

	Year ended 31 December 2017 € millions	Year ended 31 December 2016 € millions	Total change 2017 v 2016 € millions	Translation foreign exchange gain/ (loss) 2017 € millions	Operational change 2017 v 2016 € millions
Revenue	10.3	10.7	(0.4)	0.2	(0.6)
Cost of operations	(4.5)	(5.5)	1.0	(0.1)	1.1
Gross profit	5.8	5.2	0.6	0.1	0.5
Administrative expenses	(0.8)	(0.9)	0.1	-	0.1
Gross profit less administrative expenses	5.0	4.3	0.7	0.1	0.6
Gross profit %	56%	49%			
Gross profit less administrative expenses %	49%	40%			

In 2017 the gross margin realized by the Property Rental segment increased as compared to 2016 due to lower cost of operations, mainly repairs and maintenance. The Group commenced the significant remodel of the *Millennium Plaza* lobby, which should improve the attractiveness and image of this valuable property.

## Hotel operations

	Year ended 31 December 2017 € millions	Year ended 31 December 2016 € millions	Total change 2017 v 2016 € millions	Translation foreign exchange gain/ (loss) 2017 € millions	Operational change 2017 v 2016 € millions
Revenue	19.6	19.1	0.5	0.4	0.1
Cost of operations	(12.4)	(11.6)	(0.8)	(0.2)	(0.6)
Gross profit	7.2	7.5	(0.3)	0.2	(0.5)
Administrative expenses	(3.1)	(2.8)	(0.3)	-	(0.3)
Gross profit less administrative expenses	4.1	4.7	(0.6)	0.2	(0.8)
Gross profit %	37%	39%			
Gross profit less administrative expenses %	21%	25%			

In 2017 the hotel profit from operations declined as compared to 2016 mainly due to slight increase of hotel costs due to hotel inventory renewal.

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## Administrative expenses

Total administrative expenses increased significantly by €8.9 million as compared to 2016 mainly due to accrual for performance fee amounting to €8.6 million. In 2016 Property Manager was only entitled to management fee.

## Valuation movement

In 2017 the decrease of the market value of the investment properties portfolio was of €4.7 million as compared to an increase of €3.3 million in 2016. The movements relate mainly to the change in value of *Millennium Plaza*.

## Other operating income and expenses

Other operating income and expenses are items that do not directly relate to the day-to-day activities of the Group. Such items include: income and expenses for items that are recharged to contractors and other suppliers at cost, and other such items. There were no significant movements in the other operating income and expenses.

## Finance income and costs

Finance income increased by €19.8 million primarily due to a €19.5 million bank loan discount. On September 2016 the Group concluded an agreement with Erste Group Bank AG (as disclosed on page 10) which was completed in September 2017 and resulted in €19.5 million reduction in external bank debts.

The income statement includes finance costs of €3.4 million in 2017, compared to €4.0 million in 2016, representing mainly interests on bank loans and related bank charges. The decreased level of finance costs in 2017 was mainly attributable to lower bank interest charges associated with *Millennium* bank facility.

## Foreign exchange

The fluctuations in exchange rates in the underlying currencies in the countries in which the Group operates and owns assets have resulted in significant foreign exchange differences.

In 2017 the Group reported exchange gains of €3.0 million as compared to €3.0 million loss in 2016. These gains and losses were due to the unrealised foreign exchange gains and losses on EUR denominated bank loans in Polish, Hungarian and Romanian subsidiaries. The foreign exchange gains occurred mainly as a result of appreciation of PLN against EUR in 2017. The foreign exchange losses occurred mainly as a result of depreciation of PLN against EUR in 2016.

A summary of exchange rates by country for average and closing rates against the reporting currency as applied in the financial statements is set out below.

	Polish Zloty	Hungarian Forint	Romanian Lei	Bulgarian Lev
<b>Closing rates</b>				
31 December 2017	4.1709	310.14	4.6597	1.95583
31 December 2016	4.4240	311.02	4.5411	1.95583
% Change	-6%	0%	3%	0%
<b>Average rates</b>				
Year 2017	4.2576	309.21	4.6359	1.95583
Year 2016	4.3625	311.46	4.5173	1.95583
% Change	-2%	-1%	3%	0%

	Polish Zloty	Hungarian Forint	Romanian Lei	Bulgarian Lev
<b>Closing rates</b>				
31 December 2016	4.4240	311.02	4.5411	1.95583
31 December 2015	4.2615	313.12	4.5245	1.95583
% Change	4%	-1%	0%	0%
<b>Average rates</b>				
Year 2016	4.3625	311.46	4.5173	1.95583
Year 2015	4.1839	309.90	4.5040	1.95583
% Change	4%	1%	0%	0%

# ATLAS ESTATES LIMITED

## Net Asset Value

The Group's property assets are categorised into three classes, when accounted for in accordance with International Financial Reporting Standards as adopted by the EU. The recognition of changes in value in each category is subject to different treatment as follows:

- Yielding assets let to paying tenants – classed as investment properties with valuation movements being recognised in the Income Statement;
- Property, plant and equipment (“PPE”) operated by the Group to produce income, such as the Hilton hotel or land held for development of yielding assets are disclosed as PPE – revaluation movements are taken directly to reserves, net of deferred tax; and
- Property developments, including the land on which they will be built – held as inventory, with no increase in value recognised in the financial statements unless where an increase represents the reversal of previously recognized deficit below cost.

The Company sets out below the key measures relating to Net Asset Value (NAV) per share. This includes the NAV per share per the financial statements and the adjusted NAV per share as defined at IPO and previously disclosed by the Company.

	NAV 2017 € millions	NAV per share 2017 €	NAV 2016 € millions	NAV per share 2016 €
<b>Basic NAV</b>	85.1	1.8	68.2	1.5
Development land valuation increase	31.2	-	17.7	-
Deferred tax	(5.9)	-	(3.3)	-
<b>Adjusted NAV (see page 7)</b>	110.4	2.4	82.6	1.8

Notes: The number of shares in issue as at 31 December 2017 and 2016 is 46,852,014 (excluding treasury shares).

The Property Manager's management and performance fees are based on the adjusted NAV.

For the twelve months to 31 December 2017 the combined fee payable to AMC by the Group was €10.2 million whereas for the twelve months to 31 December 2016 AMC was entitled to management fee amounting to €1.6 million (see page 32).

## Ongoing activities

During the year ended 31 December 2017, the Company continued to identify ways by which it can generate added value through the active management of its yielding asset portfolio. It has also continued to crystallise the value of development projects by the pre-selling of apartments under construction and by the completion of development property in the course of construction.

The property portfolio is constantly reviewed to ensure it remains in line with the Company's stated strategy of creating a balanced portfolio that will provide future capital growth, the potential to enhance investment value through active and innovative asset management programmes and the ability to deliver strong development margins.

A key management objective is to monitor operations of hotel activity, enhance occupancy of income yielding assets, as well as remodel valuable assets in order to attract new tenants.

## **Financial management, operational management and material risks**

In continuing to fulfil its obligations to its Shareholders and the markets, together with maintaining its policy of maximum disclosure and timely reporting, the Group is continually improving and developing its financial management and operational infrastructure and capability. Experienced operational teams are in place in each country, where there is significant activity, otherwise a central operational team and investment committee monitor and control investments and major operational matters. As such, the management team continually reviews its operating structures to optimise the efficiency and effectiveness of its network, which is particularly important given the current environment.

We continue to enhance our internal control, reporting procedures and IT systems in order to generate appropriate and timely management information for the ongoing assessment of the Group's performance. We operate a financial reporting system which provides the Group with the required reporting framework, financial management and internal control.

# ATLAS ESTATES LIMITED

## *Global economic conditions*

The Board and the Property Manager closely monitor the effects that the current global economic conditions have on the business and will continue to take steps to mitigate, as far as possible, any adverse impact that may affect the business.

The Group derives its revenue from activities carried out mainly in the Polish market with Romania and Hungary also contributing, however at a much lower level. The Group's financial results are therefore contingent on factors such as the stability of the political systems at the given moment and the macroeconomic data related mainly to the condition of the Polish but also Romanian and Hungarian economies, in particular the level of GDP growth, investment spending, levels of household income, interest rates, foreign exchange rates and inflation rate. Any deterioration to the macroeconomic conditions in these countries may expose the Group's business to risk, thus affecting its future financial results and prospects for development.

## *Financing and liquidity*

Management has experienced strict requirements of the lenders for financing in the CEE region which has been reflected in the covenants that are applied to facilities, such as a reduction of loan to value ratio, increasing margins and an increase in levels of required pre-sales on development projects. The management team see this as a potential risk to the ongoing development of the Company and as a result are devoting significant resource to the management of banking relationships and the monitoring of risk in this area.

Cash is managed both at local and head office levels, ensuring that rent collection is prompt, surplus cash is suitably invested or distributed to other parts of the Group, as necessary, and balances are held in the appropriate currency. Where possible, the Company will use debt facilities to finance its projects, which the Company will look to secure at appropriate times and when available, depending on the nature of the asset – yielding or development.

## *Currency and foreign exchange*

Currency and foreign exchange rates exposures are continually monitored. Foreign exchange risk is largely managed at a local level by matching the currency in which income and expenses are transacted and also the currencies of the underlying assets and liabilities.

Most of the income from the Group's investment properties is denominated in Euro and our policy is to arrange debt to fund these assets in the same currency. Where possible, the Group looks to match the currency of the flow of income and outgoings. Some expenses are still incurred in local currency and these are planned for in advance. Development of residential projects has created receipts largely denominated in local currencies and funding facilities are arranged accordingly. "Free cash" available for distribution within the Group is identified and appropriate translation mechanisms put in place.

## **Conclusions**

AMC's key strategic objective is the maximisation of value for the Company's Shareholders, which it continues to work towards. Its teams are very experienced in the active management of investment and development properties and provide the Company with local market knowledge and expertise. In August 2017 a loan facility extended to a development project in Warsaw- *Apartamenty przy Krasińskiego II* - was fully repaid as a result of high presales recorded at this very successful project. Additionally, in September 2017 the Group managed to complete the agreement with Erste Group Bank AG which resulted in significant reduction of Group's external bank debt (as disclosed on page 11). This success was partially driven by the fact that the last instalment due to Erste Bank was financed with the new loan facility obtained by *Millennium Plaza* project (as disclosed on page 11 - New Loan). AMC currently focuses its efforts on the finalisation of the planning phase of *Nakielska Apartments Project* – the Group's next residential project in Warsaw.

## **Ziv Zviel**

### **Chief Financial Officer and Chief Operating Officer**

Atlas Management Company Limited

26 March 2018



# ATLAS ESTATES LIMITED

## Key Property Portfolio Information

Location/Property	Description	Company's ownership
<b>Poland</b>		
Hilton Hotel	First Hilton Hotel in Poland – a 4 star hotel with 314 luxury rooms, large convention centre, fitness club and spa Holmes Place Premium, casino and retail outlets. Location close to the central business district in Wola area of Warsaw.	100%
Atlas Estates Tower (former name: <i>Platinum Towers – offices</i> )	Land located next to <i>Hilton</i> hotel in Warsaw. Land with zoning for an office/residential tower planned up to 42 floors.	100%
Galeria Platinum Towers	Commercial area on the ground and first floors Platinum Towers with 1,904 square meters of gallery and 208 parking places almost fully let to tenants.	100%
Nakielska Apartments Project	Residential development in the Wola district of Warsaw. It will be a two stage development which will release 250 apartments with parking and amenities, including retail facilities. This project is an early planning phase.	100%
Apartamenty przy Krasieńskiego,	Development in the Żoliborz district of Warsaw.  The first stage of this development included 303 apartments as well as parking and amenities and retail facilities. The construction of the first stage was completed in 2013. As of 31 December 2017 all apartments were sold and only 2 retail units were available for sale.  The second stage of this successful development project released 123 apartments as well as parking and retail facilities. The construction commenced in November 2015 and was completed in August 2017. As of 31 December 2017 only 3 retail units and 5 apartments were available for sale. Remaining apartments and retails were either sold (8 apartments and 1 retail) or presold (110 apartments and 4 retails).	100%
Millennium Plaza	39,138 square meters of office and retail space in the central business district of Warsaw.	100%
Sadowa office building	6,872 square meters office building close to the city centre of Gdańsk.	100%
Capital Art Apartments	The <i>Capital Art Apartments</i> project in Warsaw is another development in Warsaw close to the city center. It is a four stage development with 784 apartments as well as parking and amenities, including retail facilities. As of 31 December 2017 all apartments were sold or presold, whereas 3 retail units remain available for sale and one is presold.	100%
<b>Hungary</b>		
Ikarus Business Park	283,000 square meters plot with 110,000 square meters of built business space and 70,000 of currently lettable, located in the 16th district, a suburban area of Budapest.	100%
<b>Romania</b>		
Voluntari	86,861 square meters of land in three adjacent plots at the pre-zoning stage, in the north eastern suburbs of the city, known as Pipera.	100%
Solaris Project	32,000 square meters plot for re-zoning to mixed-use development in a central district of Bucharest.	100%
Golden Tulip Hotel	4 star 78 room hotel in central Bucharest.	100%
<b>Bulgaria</b>		
The Atlas House	Office building in Sofia's city center with 3,472 square meters of lettable area.	100%

# ATLAS ESTATES LIMITED

## Directors - Atlas Estates Limited

### **Mark Chasey**

Chairman, Non-executive  
Director

Mr Chasey graduated with a Bachelor of Commerce degree in 1979 and a Bachelor of Accountancy degree in 1981, both from the University of the Witwatersrand, South Africa. Having completed his articles with the accounting firm Pim Goldby in Johannesburg, Mr Chasey qualified as a member of the South African Institute of Chartered Accountants in 1984 and was Financial Controller at Femco Electric Motors Limited in Johannesburg from 1984 to 1988. After establishing his own liquidation business in Johannesburg in 1989, Mr Chasey joined Ernst and Young Trust Company (Jersey) Limited in 1997 and then, in 1999, went on to establish Oak Trust (Guernsey) Limited.

### **Andrew Fox**

Non-executive Director  
Chairman of Audit Committee

Mr Fox graduated with a Bachelor of Commerce degree in 1999 and a Post Graduate Diploma in Finance, Banking and Investment Management in 2000, both from the University of Natal, South Africa. Mr Fox qualified as a member of the Association of Chartered Certified Accountants in 2003 and was admitted as a Fellow in 2009. Mr Fox joined Oak Trust (Guernsey) Limited in 2001 and was appointed a Director in 2006.

### **Guy Indig**

Non-executive Director

Mr Indig graduated from Bar-Ilan University, Israel, with an LLB in 1990. In 2001 Mr Indig obtained an MBA from Tel-Aviv University. He also holds a Masters in Finance from the London Business School. Having practiced law for several years, in 2000 Mr Indig joined the Beny Steinmetz Group, a sizeable, global private equity group focused on real estate investments and natural resources. Mr Indig acted as an Investment Director in BSG's international Real Estate and Private Equity teams. Having completed a Masters in Finance degree at London Business School in 2005, Mr Indig joined the Royal Bank of Scotland and worked as a director in RBS' real estate finance division until 2008, focussing on asset-backed debt financing and investments throughout continental Europe and the UK. In 2008, Mr Indig was asked to join the Izaki Group as a Managing Director and he has since been leading the Izaki Group's European Real Estate and private equity investment activities.

## **Registered office**

Atlas Estates Limited  
3rd Floor, 1 Le Truchot  
St Peter Port  
Guernsey GY1 1WD  
Company number: 44284

# ATLAS ESTATES LIMITED

## Directors and Senior Management of the Atlas Management Company Limited, the Property Manager

**Eran Rabinovitz**  
Non-executive Director

Mr Rabinovitz serves as a consultant to various IGI group companies and is leading a few developments in London. Prior to that Mr Rabinovitz has managed a project creating a health care provider in the UK. Prior to that, and from 2005 Mr Rabinovitz has served in the UK as the director for BCRE-Izaki group, an international company with vast real estate investments around the world. In the years 2003-2004 Mr Rabinovitz has served as a financial controller in Haslemere Estate Management Limited, one of the biggest UK focused real estate companies, traded on London and Amsterdam stock exchanges.  
Mr Rabinovitz holds a first degree in accounting and economics from Tel Aviv University.

**Nicholas Babbé**  
Non-executive Director

Mr Babbé Graduated with a Bachelor of Arts degree with Honours in 2001 from the University of the West of England. He subsequently moved into the finance industry taking positions with HSBC and Investec respectfully and undertook the Society of Trusts and Estates Practitioners diploma and joined the society as a full member in 2008. Nick joined Oak Trust (Guernsey) Limited in early 2009 where he is a Trust Manager and now studying for a BSC degree in Management with Trusts and Estates with The University of Manchester and Manchester Business School.

**Ziv Zviel**  
Chief Financial Officer and  
Chief Operations Officer

Mr Zviel joined Atlas Management Company Limited in October 2010 as its Chief Financial Officer. Prior to this and from 2009 Mr Zviel served as Chief Financial Officer and Treasurer of Deltathree, a telecom company traded in the United States. From 2007 till then he served as VP of Finance of LivePerson, an Internet company publicly traded in the United States and Tel Aviv stock exchanges. Prior to that, and from 2002, Mr Zviel served in a number of roles in Magic Software, a global software company traded in the United States. Before that, and from 2000, Mr Zviel served as an audit manager in the Tel Aviv office of Ernst & Young.  
Mr Zviel holds a first degree in accounting and economics and an MBA in Business Management, both from the Bar Ilan University in Israel.

\*On 12 February 2018 the Directors of Atlas were notified by AMC that due to personal circumstances Mr Reuven Havar will cease to fulfil his role as CEO of AMC with immediate effect.

# ATLAS ESTATES LIMITED

## Directors' Report

The Directors present their report and the audited financial statements for the twelve months ended 31 December 2017.

### **Results and dividends**

The results for the Group for the year are set out in the consolidated income statement on page 39 and show a profit after tax attributable to equity shareholders of €11.6 million (2016: profit after tax of €2.3 million).

The Company has not declared a dividend for 2017 (2016: €nil).

### **Activities and review of business**

The Company is domiciled in Guernsey as a closed-ended investment company under Guernsey Law.

The principal activity of the Company and the Group is property investment and development throughout Central and Eastern Europe ("CEE"), together with the management of its properties. The development of the Group's business and future prospects, including a description of material risk factors and threats and information on the degree of the Group's exposure to such risks or threats, is considered in the Chairman's Statement on pages 5 to 7 and the Review of the Property Manager on pages 8 to 16.

There were no significant changes in the Company's organisational structure in the year ended 31 December 2017. A list of the operating subsidiaries of the Company subject to consolidation is included within note 32 of the financial statements.

### **Investing Policy**

The Company mainly invests in Poland in a portfolio of real estate assets across a range of property types. The Group also operates in the Hungarian, Romanian and Bulgarian real estate markets.

The Company actively targets Poland, whose economy is believed to be the most attractive amongst CEE economies.

The Company makes investments both on its own and, where appropriate, with joint venture partners in residential, industrial, retail, office and leisure properties in order to create an appropriately balanced portfolio of income-generating properties and development projects.

The Company may employ leverage to enhance returns on equity. Wherever possible, the Directors intend to seek financing on a non-recourse, asset by asset basis. The Company has no set limit on its overall level of gearing. However, it is anticipated that the Company shall employ a gearing ratio of up to 80% of the total value of its interest in income-generating properties within its property portfolio.

### **Diversification**

In order to hedge against risks, the Group maintains a diversified portfolio of real estate investments. The diversification has two aspects: firstly, the Group diversifies the type of investment (e.g. residential development, office, commercial, etc.); and secondly, the Group intends to stagger the development phases of its various projects (e.g. the purchase of land, the design phase, the construction phase, the marketing and sale process) in order to maintain stable levels of income earned.

### **Key performance Indicators**

Key performance indicators vary between the different areas of the Group's business.

The success of developing and selling residential apartments will be measured in terms of the price achieved for each apartment, the profit margin earned over construction cost and as a proportion of sales and the overall rate of return from a development. Information on sales is detailed in the Review of the Property Manager on pages 8 to 16.

For yielding assets the measure of the yield of an asset relative to its cost to the Group is of key importance. Also the overall valuation of the portfolio will drive the value to the Company and ultimately the Company's share price. Details of total return targets and increases in net asset value per share are included within the Chairman's Statement and Review of the Property Manager.

The key financial risk policies are stated within the financial statements of this report on pages 54 to 57.

# ATLAS ESTATES LIMITED

## Going concern

The Group has managed to obtain profit for the year of €11.6 million (compared to profit of €2.3 million in 2016).

As at 31 December 2017 the Group held land and building assets with a market value of €174 million, compared to associated external debt of €94 million (€179 million and €120 million respectively in 2016). Subject to the time lag in realising the value in these assets in order to generate cash, this “loan to value ratio” gives a strong indication of the Group’s ability to generate sufficient cash in order to meet its financial obligations as they fall due. Any land and building assets and associated debts which are ring-fenced in unique, specific, corporate vehicles, may be subject to repossession by the bank in case of a default of loan terms but will not result in additional financial liabilities for the Company or for the Group. There are also unencumbered assets which could potentially be leveraged to raise additional finance.

In assessing the going concern basis of preparation of the consolidated financial statements for the year ended 31 December 2017, the Directors have taken into account the fact that the Group is in a net current liability position. However, in considering the group’s net current liability position in the context of ongoing working capital management we note the following:

- Deferred income included in current liabilities of EUR13.3m in relation to sales deposits will be released to the income statement in the subsequent period as sales are completed rather than representing a future cash outflow,
- Property development inventories included in current assets are held at cost and are forecasted to realise cash revenues in excess of this carrying value in future period,
- The classification of one short-term loan of EUR3.7m based on the payment terms was extended until 30 June 2021 by an annex signed post year-end. Separately, the Felikon loan of EUR12.9m is fully ring fenced, so it will not generate cash outflows to the Group above the value of the Felikon property.

Within trade payables of the Group is a performance fee payable to the Property Manager. Details are provided on page 35. The payment terms of this fee are subject to consultation between the parties, and the actual payment will be subject to available cash flows of the Group.

The Directors are aware that the management of the liquidity position of the company has been and still continues to be a high priority. The company so far has been successful in managing its cash position carefully and will continue to do so, despite the various pressures. Managing this situation will require the company to use its various pockets of liquidity within its portfolio of assets and at the same time delicately manage its ongoing operations and relationships with its lending banks.

The Group’s forecasts and projections have been prepared taking into account the economic environment and its challenges and the mitigating factors referred to above. These forecasts take into account reasonably possible changes in trading performance, potential sales of properties, favourable arrangements for the payment timetable for the AMC performance fee and the future financing of the Group. They show that the Group will have sufficient facilities for its ongoing operations.

While there will always remain some inherent uncertainty within the aforementioned cash flow forecasts, the Directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. Accordingly the Directors continue to adopt the going concern basis in preparing the consolidated financial statements for the year ended 31 December 2017.

## Company website

To provide a portal for investor information and in accordance with the requirements of WSE, the Company maintains a website accessed at <http://www.atlasestates.com>.

## Auditors

The Directors confirm that as at 26 March 2018:

- So far as they are aware, there is no material relevant information (that is, information needed by the Group’s auditors, in connection with preparing their report) of which the Group’s auditors are unaware;
- The Directors have taken all the steps that they ought to have taken as Directors in order to make themselves aware of any relevant audit information and to establish that the Group’s auditors are aware of that information.

On 14 July 2017 during the Annual General Meeting it was resolved that the partnership BDO LLP were to be reappointed as the auditor of the financial reports of the Company for the year 2017.

The consolidated financial statements of the Group for 2017 were audited by BDO LLP on the basis of an engagement letter dated 20 January 2018. The consolidated financial statements of the Group for 2016 were audited by BDO LLP on the basis of an engagement letter concluded on 20 January 2017.

## ATLAS ESTATES LIMITED

The total fees specified in the contract with the audit company, payable or paid for an audit and review of the financial statements and for other services are presented below:

<b>Audit Company – fees</b>	<b>2017</b>	<b>2016</b>
	<b>€'000</b>	<b>€'000</b>
Audit of individual and consolidated annual financial statements	135	138
Review of interim individual and consolidated financial statements	31	34
Tax services	-	-
Other compliance services	-	-
<b>Total</b>	<b>166</b>	<b>172</b>

### Information about court proceedings

The Company is not aware of any proceedings instigated before a court, a competent arbitration body or a public administration authority concerning liabilities or receivables of the Company, or its subsidiaries, whose joint value constitutes at least 10% the Company's net equity, except as discussed in note 31.1 to the consolidated financial statements.

There are no other material legal cases or disputes that are considered material to the consolidated financial information that would either require disclosure or provision within the financial information.

### Significant Agreements and Capital Commitments

In addition to the Property Management Agreement detailed in the Remuneration Report, the Group entered into the following significant agreements:

*Agreement of 20 November 2015, between Atlas Estates (Przasnyska 9) Sp. z o.o. and Kalter Sp. z o.o.*

On 20 November 2015 a general contractor agreement was signed between the Company's subsidiary Atlas Estates (Przasnyska 9) Spółka z ograniczoną odpowiedzialnością and Kalter Spółka z ograniczoną odpowiedzialnością ("General Contractor") for the construction of multi-apartment residential building (*Apartamenty przy Krasińskiego*, the second stage) in Warsaw. The total value of contract amounted to PLN 30.0 million (excluding VAT). The completion of the General Contractor obligation occurred on time i.e. till 31 August 2017. As a result, PLN 30.0 million was paid in respect of this agreement till 31 December 2017. The contract is now fully settled, the cash held in deposit was released to the general contractor in January 2018.

Details of the bank financing agreements are disclosed as required in note 23 to the financial statements.

### Related party transactions

Related party transactions (also terms of the transactions with majority shareholder) are stated within note 28 of the financial statements of this report.

### Credit and loan facilities, guarantees and sureties

Key changes in credit and loan facilities are presented in Review of Property Manager Report on page 10 and 11.

#### *Guarantees and sureties – changes in 2017*

In 2017 the Company did not issue any guarantees or sureties for the benefit of its subsidiaries/ or other parties.

The table below presents a list of guarantees, warranties and other types of security received by the Group from contracting parties as at 31 December 2017:

<b>Company</b>	<b>Contractor's name</b>	<b>Type of security</b>	<b>currency</b>	<b>(000)</b>
Atlas Estates (Przasnyska 9) Sp. z o.o.	Kalter sp. z o.o.	Bank guarantee	PLN	1,500
Capital Art Apartments AEP Sp. z o.o. sp.j.	Unibep S.A.	Bank guarantee	PLN	2,626
Atlas Estates (Millennium) Sp. z o.o.	Several tenants	Bank guarantee	PLN	1,896
Atlas Estates (Sadowa) sp. z o.o.	Several tenants	Bank guarantee	PLN	1,056
Properpol Sp. z o.o.	Jeronimo Martins Polska S.A.	Bank guarantee	EUR	44
Zielono AEP Sp z o.o.	Unibep S.A.	Insurance guarantee	PLN	100

## ATLAS ESTATES LIMITED

A list of other types of security issued by the Company's subsidiaries in 2017 is presented below.

In 2017 in execution of obligations resulting from a loan agreement (the "Agreement") between the Company's subsidiary Atlas Estates (Millennium) Sp. z o.o. (the "Borrower") and Bank Zachodni WBK S.A (the "Lender") the following collaterals were established:

1. contractual mortgage over *Millennium Plaza* (i.e. "Building" located on the plot of land nos. 19/2, 22 and 29/3 for which District Court for Warszawa – Mokotów in Warsaw, VI Division of Land and Mortgage Registers maintains the land and mortgage register No. WA1M/00127335/7 and No. 28/2, for which the District Court for Warszawa-Mokotów in Warsaw, VI Division of Land and Mortgage Register maintains land and mortgage register No. WA1M/00201201/2 as well as the premises located in the Building for which the District Court for Warszawa-Mokotów in Warsaw, VI Division of Land and Mortgage Register maintains land and mortgage register Nos.: WA1M/00287612/2, WA1M/00287613/9, WA1M/00287614/6, WA1M/00287615/3, WA1M/00287616/0, WA1M/00287617/7, WA1M/00287618/4, WA1M/00287619/1, WA1M/00287936/9, WA1M/00287937/6) in favour of the Lender up to amount of € 38,137,500.00;
2. financial pledges over all 100 shares in the Borrower;
3. registered pledges over all 100 shares in the Borrower up to the maximum secured amount of € 35,287,500.00;
4. registered pledges over the set of movables and rights of the Borrower up to the maximum secured amount of € 35,287,500.00.

Additionally, alongside the above new loan, in 2017:

- the Company's subsidiary Atlas Estates (Millennium) Sp. z o.o ("Millennium") fulfilled all conditions precedents from the Agreement on the Amendment and Transfer of Loan (as described on page 10) and as a result Erste Bank AG relinquished any mortgage, lien, charge pledge, promissory note, letter of comfort or other security interest or any other type of guarantee granted by Millennium and/or third party for the benefit of Erste Bank to secure Erste Bank's claims under on in connection with the loan facility agreement dated 21 December 2006 or any other agreements;
- the Company's subsidiary Atlas Estates (Przasnyska 9) Sp. z o.o. fully repaid its loan facility extended by Bank Polska Kasa Opieki S.A and as a result of securities (as described below) were released.

### Guarantees and sureties – changes in 2016

In 2016 the Company did not issue any guarantees or sureties for the benefit of its subsidiaries/ or other parties.

The table below presents a list of guarantees, warranties and other types of security received by the Group from contracting parties as at 31 December 2016:

Company	Contractor's name	Type of security	currency	(000)
Atlas Estates (Millennium) Sp. z o.o.	Several tenants	Bank guarantee	PLN	1,670
Properpol Sp. z o.o.	Jeronimo Martins Polska S.A.	Bank guarantee	EUR	44
Zielono AEP Sp z o.o. SKA	Unibep S.A.	Insurance guarantee	PLN	3,110
Atlas Estates (Przasnyska 9) Sp. z o.o.	Kalter sp. z o.o.	Bank guarantee	PLN	1,500
Capital Art Apartments AEP Sp. z o.o. sp.j.	Unibep S.A.	Bank guarantee	PLN	2,626
Atlas Estates (Sadowa) sp. z o.o.	Several tenants	Bank guarantee	PLN	137

A list of other types of security issued by the Company's subsidiaries in 2016 is presented below.

- On 16 May 2016 Atlas Estates (Przasnyska 9) Sp. z o.o. with its registered seat in Warsaw (the "Borrower") and Bank Polska Kasa Opieki S.A. with its seat in Warsaw (the "Lender") established following collaterals:
  1. a contractual mortgage up to the amount of PLN 64,350,000 ("Mortgage") over the right of perpetual usufruct of the real estate consisting of the plots of land no. 12/3, 12/4, 12/5 and 12/6 for which District Court for Warszawa – Mokotów in Warsaw, VI Division of Land and Mortgage Registers maintains the land and mortgage register WA1M/00203184/0 ("Real Estates") as the security for the repayment of the loan granted to the Borrower;
  2. agreement on establishment and division of mortgage executed between the Borrower and the Lender, according to which in each case the Real Estates division will consist establishment of separate ownership, the Mortgage will be divided;
  3. registered and financial pledge agreement executed between the Atlas Projects B.V. and the Lender over the 100 shares in the share capital of the Borrower, of the nominal value 50 PLN each share, of the joint nominal value of PLN 5,000 constituting 100 % shares in the share capital of the Borrower, the pledge secures

## ATLAS ESTATES LIMITED

- repayment of the loan up to the maximum amount of PLN 64,350,000 and financial pledges secure respectively repayment of the loan up to the maximum amounts equal to PLN 62,100,000 and PLN 2,250,000;
4. registered and financial agreement executed between the Borrower and the Lender over the receivables under the bank account agreements; registered pledge secures repayment of the loan up to the maximum equal to PLN 64,350,000 and financial pledges secure respectively repayment of the loan up to the maximum amounts of PLN 62,100,000 and PLN 2,250,000;
  5. registered and financial pledge agreement executed between the Borrower and the Lender over the collection of assets; registered pledge secures repayment of the loan up to the maximum equal to PLN 64,350,000;
  6. the security assignment of Borrower's rights and claims to the Lenders;
  7. the subordination agreement;

### Corporate governance review

#### **Indication of corporate governance rules, which the Company adheres to and the place, where the rules are publicly available**

In accordance with the WSE Rules, the Board resolved in January 2008, to the extent practicable and reasonable, to comply with the majority of the corporate governance rules defined in the Code of Best Practices for WSE Listed Companies ("Best Practice"). The current and binding text of Best Practices is available at the WSE official website concerning corporate governance in public companies: <https://www.gpw.pl/best-practice>, whereas, in 2016, the Company applied Best Practices in accordance with the version that was in effect in 2016, to which this declaration of the Board regarding compliance with Corporate Governance Rules refers to. In addition, the Company's shareholders may find "A statement on the company's compliance with the corporate governance recommendations and principles contained in Best Practice for GPW Listed Companies 2016" at the Company's web site [www.atlasestates.com](http://www.atlasestates.com), section concerning corporate governance maintained as part of the investor relations site.

#### **Information on the Company non-compliance with applying Best Practices**

The Company's compliance with certain principles is mainly limited by the differences between Guernsey and Polish legal systems, procedures and accepted practices.

According to the current status of compliance with the Best Practice, the Company does not apply 2 recommendations:

- III.R.1. - The recommendation is not applied due to the size of the Company.
- IV.R.2. - The Company will not comply with this rule since it is not in a position to provide technical infrastructure enabling secure participation in general meeting using electronic communication means. This rule is not applied with the exception of point 3) of the rule.

According to the current status of compliance with the Best Practice, the Company does not apply 15 detailed principles:

I.Z.1.3.and II.Z.1. - There is no formal division of duties and responsibilities among members of the Board of Directors since pursuant to the Articles of Association, Atlas Group's policy and its strategic direction are determined by the full Board. On the corporate website the formal schedule of matters reserved to the Board of Directors is disclosed.

I.Z.1.19. and IV.Z.13. - Atlas Estates Limited is Guernsey company and therefore the rules of the Commercial Companies Code do not apply, instead the Company applies Articles of Association according to which the Board of Directors shall determine under what conditions the books and documents of the Company shall be open to inspection.

I.Z.1.20.- Atlas Estates Limited does not provide on-line transmissions of general meetings over the internet and does not record the general meetings. The reason for this is the fact that all the shareholders entitled to participate in the general meetings can appoint proxies to act on their behalf and vote at the general meetings according to their instructions. Therefore, in the opinion of the Company, there is no need to record and broadcast the general meetings.

II.Z.7. - The Company do not apply the Annex 1 to the "Commission Recommendation of ..." however the audit committee's terms of reference which are available on the corporate website are broadly consistent with Annex 1.

IV.Z.1. - The Articles provide that the Company's General Meeting shall be held in Guernsey or elsewhere. The determination of the location of the General Meeting is mainly driven by the need of ensuring administration assistance in accordance with the Guernsey Law. The Company's administrator is located in Guernsey and, therefore, the general meetings will be, most likely, held in Guernsey.



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IV.Z.2. - Atlas Estates Limited does not provide on-line transmissions of general meetings over the Internet and does not record the general meetings. The reason for this is the fact that all the shareholders entitled to participate in the general meetings can appoint proxies to act on their behalf and vote at the general meetings according to their instructions. Therefore, in the opinion of the Company, there is no need to record and broadcast the general meetings.

IV.Z.3.- Atlas Estates Limited is incorporated under Guernsey law and there is no requirement under Guernsey law to permit media to attend general meetings. Accordingly, many Guernsey based fund administrators (corporate service providers) have adopted internal policies which do not permit the media to attend general meetings. In this regard, the internal policies of Intertrust Fund Services (Guernsey) Limited, the Company's administrator, do not permit media to attend meetings as a matter of standard practice and as Intertrust Fund Services (Guernsey) Limited co-ordinate the general meetings of the Company, such policy is adopted by the Company.

IV.Z.4.- Atlas Estates Limited is Guernsey company and therefore the rules of the Commercial Companies Code do not apply, instead the Company applies The Companies (Guernsey) Law. The Board of Directors (the "Board") may whenever it thinks fit and shall on the requisition in writing of one or more holders representing not less than one-tenth of the issued Share capital of the Company upon which all calls or other sums then due have been paid convene an extraordinary General Meeting. If there are not sufficient Directors capable of acting to call a general meeting, any Director may call a General Meeting. If there is no Director able to act, any two Shareholders may call a general meeting for the purpose of appointing Directors. The requisition shall be dated and shall state the object of the meeting and shall be signed by the requisitionists and deposited at the Company's registered office and may consist of several documents in like form each signed by one or more of the requisitionists. If the Board does not cause a meeting to be held within twenty-one days from the date of the requisition being so deposited the requisitionists or a majority of them in value may themselves convene the meeting. Any meeting convened by requisitionists shall be convened in the same manner (as nearly as possible) as that in which meetings are convened by the Board.

IV.Z.5.- Shareholders are not generally restricted from participating in General Meetings, but they may be restricted from voting in limited circumstances in accordance with Guernsey Law and Articles of Association. If, for example, they fail to comply with the obligation pursuant to Articles of Association to disclose the identity of any person (other than the registered shareholder) who has an interest in the shares they would be barred from voting. This may therefore mean that in certain circumstances the Company will not comply with this rule.

IV.Z.7.- The Chairman of general meeting may interrupt proceedings and adjourn the meeting, which can be reconvened at a later point . This would not be at the instruction of a shareholder but any request could be submitted to the Chairman at the meeting who would decide the action to be taken.

IV.Z.13.- Atlas Estates Limited is Guernsey company and therefore the rules of the Commercial Companies Code do not apply, instead the Company applies Articles of Association according to which the Board of Directors shall determine under what conditions the books and documents of the Company shall be open to inspection.

IV.Z.18.- Atlas Estates Limited share capital is divided into shares at nominal value of EUR0.01, which is below PLN 0.50 limit.

V.Z.2. and V.Z.6. - Pursuant to the Articles, the Company's Directors may take part in the discussion and vote in certain circumstances provided, however, that such Directors disclose their interest. Circumstances in which a director may vote notwithstanding their interest are presented in the Articles.

According to the current status of compliance with the Best Practice, the Company applies recommendations: II.R.1., II.R.2., II.R.3., II.R.4., II.R.5., II.R.6., II.R.7. however the Company added the following comment:

Recommendation concerning the members of the management and supervisory boards, do not apply directly due to the fact that Atlas Estates Limited does not have both a management and a supervisory boards. Atlas Estates Limited as a Guernsey company has only one governing body– the Board of Directors.

According to the current status of compliance with the Best Practice, the Company applies below listed principles however the Company added the following comments:

I.Z.1.15. - Atlas Estates Limited Group has not adopted a diversity policy with respect to the Board of Directors and its key managers, however the process of selection of members of the Board of Directors and key managers is based on such elements as appropriate education, experience and expertise, as well as, the

## ATLAS ESTATES LIMITED

qualifications and competencies of candidates and in no way leads to the disqualification of any candidate due to the above-mentioned elements of a diversity policy.

II.Z.2. - Each Director of Atlas Estates Limited declare all directorship positions held and the Board of Directors consider and approve this at each meeting convened.

II.Z.3., II.Z.5., II.Z.6., II.Z.9., II.Z.10.1, II.Z.10.2, II.Z.10.3, II.Z.10.4, II.Z.11., III.Z.1., III.Z.2., III.Z.4., IV.Z.11., V.Z.5. - Rules concerning the members of the management and supervisory boards, do not apply directly due to the fact that Atlas Estates Limited does not have both a management and a supervisory boards. Atlas Estates Limited as a Guernsey company has only one governing body – the Board of Directors.

III.Z.5. - Rule concerning the members of the management and supervisory boards, do not apply directly due to the fact that Atlas Estates Limited does not have both a management and a supervisory boards. Atlas Estates Limited as a Guernsey company has only one governing body– the Board of Directors. There is an audit committee which reports to the Board of Directors.

VI.Z.1. and VI.Z.2. - The property investments held by Atlas Group are externally managed by Atlas Management Company Group (“AMC” or “Property Manager”). AMC has been established for the sole purpose of providing the property management and ancillary services to the Company. On signing the agreement with the Property Manager, the Company looked to structure a remuneration package that combined a management fee element with performance related rewards that motivate the Property Manager and align their interests with the performance and growth of the business and the long term enhancement of shareholder value. The details concerning remuneration package are disclosed in the Company’s annual financial statements.

VI.Z.3. - The rule is applicable to Board of Directors regarding the fact that rule concerning the members of the management and supervisory boards, do not apply directly due to the fact that Atlas Estates Limited does not have both a management and a supervisory boards. Atlas Estates Limited as a Guernsey company has only one governing body– the Board of Directors.

VI.Z.4. - Remuneration Report is part of the Company’s annual report.

### Financial statements’ preparation process

#### DIRECTORS’ RESPONSIBILITIES

Guernsey company law requires that Directors prepare financial statements for each financial period. These must give a true and fair view of the state of affairs of the Group as at the end of the financial period and of the results of the Group for that period. In preparing those financial statements, the Directors are required to:

- Select suitable accounting policies and then apply them consistently;
- Make judgements and estimates that are reasonable and prudent;
- Ensure the financial statements comply with IFRS as adopted by the EU; and
- Prepare the financial statements on the going concern basis, unless it is inappropriate to presume that the Group will continue in business.

The Directors are responsible for ensuring that proper accounting records are maintained, which disclose with reasonable accuracy the financial position of the Group, and that the financial statements comply with Guernsey Law. They are also responsible for the system of internal control, for safeguarding the assets of the Group and hence for taking reasonable steps for the detection and prevention of fraud and other irregularities.

#### DIVISION OF RESPONSIBILITIES AND COMPETENCES IN THE PREPARATION OF FINANCIAL INFORMATION

The Group aspires to apply high standards of corporate governance in all material areas of its business. The Board and, where delegated, the Property Manager use a comprehensive system of controls, checks and reporting requirements that they consider provide the capability to maintain these standards. The systems mentioned are being designed to meet the requirements of the Company and its business and to assess and manage the opportunities and risks that may arise.

The Group’s reporting department prepares financial statements, interim reports of the Group and the Company under the supervision of the Property Manager (CFO).

The Group’s reports are drafted by highly qualified team of employees of the controlling and reporting departments on the basis of accounting information prepared by the financial and accounting department. The preparation process is supervised by the reporting department’s mid-level management. The financial statements, before they are delivered to the independent auditor, are verified by Group Financial Reporting Manager, then by the Property Manager (CFO).

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## INTERNAL CONTROLS

The Directors assume overall responsibility for the Group's system of internal control designed to safeguard shareholders' investments and the Group's assets and for reviewing its effectiveness. The controls are designed to identify and manage risks faced by the Group and not to totally eliminate the risk of failure to achieve business objectives. To this end internal controls provide reasonable, but not absolute assurance against material misstatement or loss. The implementation and operation of such systems has been delegated to the Property Manager and the processes are communicated regularly to all of their staff who are made aware of the areas for which they are responsible. Such systems include strategic planning, the appointment of appropriately qualified staff, regular reporting and monitoring of performance and effective control over capital expenditure and investment.

The Group's key internal controls are centred on a system of comprehensive reporting on all of its business activities. The Property Manager staff meets on a monthly basis to review the control systems and to assess the performance and position of the Group. A separate risk management process is operated that engages the Directors and senior management of the Company and Property Manager that is aimed at identifying areas of risk faced by the Group and assessing the likely impact on operating activities. Significant risks that are identified by this process are communicated to the Board with recommendations for actions to mitigate them. The Group uses independent agents to undertake any specialist analysis, investigation or action that is needed. The Property Manager reports to the Directors at least annually that they have carried out a review of the system for internal controls.

The internal financial control department operates on the basis of a clearly defined set of control procedures and a comprehensive monthly and quarterly reporting structure. Detailed revenue, cash flow and capital forecasts are prepared for each asset and updated regularly throughout the year and reviewed by the Property Manager and the Board. The Property Manager agreement sets out clearly defined guidelines for all asset transactions. These require the approval of the Board of Directors.

The Audit Committee is responsible for reviewing the effectiveness of the system of internal financial control. A review of these processes is conducted on a regular basis and any significant issues raised by this review are communicated to the Board for their consideration.

### Significant shareholders

The Board is aware of the following direct or indirect interest in 5% or more of the Company's ordinary share capital (excluding 3,470,000 treasury shares, which have no voting rights). All shares have equal voting rights.

#### 1. Direct shareholders (*i.e. shareholders holding the shares for the benefit of other parties*)

Significant Shareholders	Number of Shares held	Voting Rights
Euroclear Nominees Limited <EOCO1>	40,298,191	86.01
Atlas International Holdings Limited	6,461,425	13.79
<b>TOTAL</b>	<b>46,759,616</b>	<b>99.80</b>

#### 2. Beneficial shareholders (*i.e. shareholders for the benefit of which the above direct shareholders held the shares*) based on the information provided to the Company by these shareholders under the applicable legislation (*the notifications received from shareholders in accordance with Art. 70 with connection to art. 69 of the Act of 29 July 2005 on the Public Offering, Condition Governing the introduction of Financial Instruments to Organized Trading and Public Companies*)

Significant Shareholders	Number of Shares held	Voting Rights
Fragiolig Holdings Limited	35,391,145	75.54
Atlas International Holdings Limited	6,461,425	13.79
<b>TOTAL</b>	<b>41,852,570</b>	<b>89.33</b>

#### 3. The ultimate parent company is RIG Investments Sarl and the ultimate controlling party by a virtue of ownership is Mr Ron Izaki.

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## **Indication of the holders of any and all securities which give special control rights along with a description of these rights**

The Company's share capital is divided into 46,852,014 shares which give equal rights to shareholders. Additionally the Company holds 3,470,000 treasury shares, which have no voting rights.

## **Legal or statutory limitations in the exercise of voting rights**

Each share gives right to one vote at the General Meeting of the Company as indicated above. Shareholders are not generally restricted from participating in General Meetings, but they may be restricted from voting in limited circumstances in accordance with the Companies (Guernsey) Law, 2008, as amended ("the Companies Law") and Articles of Association. If, for example, they fail to comply with the obligation pursuant to Articles of Association to disclose the identity of any person (other than the registered shareholder) who has an interest in the shares they would be barred from voting (disclosed by the Company as non-compliance with WSE Best Practice rule IV.Z.5 on page 25)

## **Limitations in the transfer of the ownership rights of the Company's securities**

The Articles of Association provide certain limitations with regard to the transfer of the ownership rights to the Company's shares as stated in article 13 of these Articles. The Directors shall have power to implement such arrangements as they may, in their absolute discretion, think fit in order for any class of shares to be admitted to settlement by means of The National Depository for Securities' system.

The Board may, in its absolute discretion and without giving a reason, refuse to register a transfer of any share which is not fully paid or on which the Company has a lien, provided, in the case of a listed share that this would not prevent dealings in the share from taking place on an open and proper basis. In addition, the Directors may refuse to register a transfer in respect of certificated shares if:

- (i) it is not fully paid up;
- (ii) it is in respect of more than one class of shares;
- (iii) it is not delivered for registration to the Company's registered office or such other place as the Board may decide, accompanied by the certificate for the shares to which it relates and such other evidence as the Board may reasonably require to prove title of the transferor and the due execution by him of the transfer or, if the transfer is executed by some other person on his behalf, the authority of that person to do so.

The Board may comment in its absolute discretion and, without giving a reason, refuse to register any allotment or transfer of shares in favour of more than four joint transferees or a child, bankrupt or person of unsound mind.

If the Board refuses to register the transfer of a share they shall, within two months after the date on which the transfer was lodged with the Company, send notice of the refusal to the transferee. The registration of transfers may be suspended at such times and for such periods (not exceeding 30 days in any one year) as the Board may decide and either generally or in respect of a particular class of share provided that the Board may not suspend the registration of transfers of any participating security without the consent of the operator of the relevant system.

## **Terms for the appointment and removal of Directors and the description of their powers**

Terms of appointment and removal of Directors are presented in the Company's Articles of Association in articles 23, 24 and 30. The current version of the Company's articles of Association is available at the Company website:

<http://www.atlasestates.pl/en/investor-relations/corporate-governance>

## **POWERS OF THE BOARD OF DIRECTORS**

The Management Board exercises all powers in accordance with Guernsey Law and, the Company's Articles of Association (especially articles 27 and 28).

## **AUTHORISATION OF THE BOARD OF DIRECTORS TO MAKE DECISIONS CONCERNING THE ISSUE OF THE COMPANY'S SHARES**

According to the Articles of Association (article 3) the unissued shares within the scope of the authorised capital (pursuant to a resolution of the General Meeting) are at the disposal of the Board, which has the unconditional authority to allot, grant options or warrants over, offer or otherwise deal with or dispose of them or rights to subscribe for or

## **ATLAS ESTATES LIMITED**

convert any security into shares to such persons on such terms and conditions and at such times as the Board determines but so that no share shall be allotted at a discount.

### **AUTHORISATION OF THE BOARD OF DIRECTORS TO MAKE DECISIONS CONCERNING THE REDEMPTION OF THE COMPANY'S SHARES**

The Board has the power to issue redeemable shares pursuant to article 3.1 of the Articles of Association and may redeem any such shares in accordance with the terms of their issue.

Furthermore, the Board is authorised, on the basis of the article 8.4 of the Articles of Association to adopt a regulations governing the redemption of those redeemable shares.

Article 3.2(b) of the Articles of Association gives the company the power to buy back shares whether they are redeemable or not.

### **Annual General Meeting**

The Annual General Meeting is usually scheduled in the period June/July. Detailed timing and agenda is communicated separately in accordance with WSE regulations and the Company's Articles of Association.

The Board encourages active communication with all of the Company's shareholders. The Chief Executive and Chief Financial Officer of the Property Manager are the main points of contact for shareholders and they endeavour to respond to enquiries on a timely basis either verbally or in writing. Provision is made on the Company's website for enquiries to be made of Directors.

As part of the communication process a series of meetings is held between the Property Manager and significant shareholders throughout the year. Directors are invited to attend these meetings and are available should shareholders request their attendance. All shareholders have at least twenty working days' notice of the Annual General Meeting, at which questions can be raised.

The rights of the shareholders are subject to Guernsey Law and the Articles of Association of the Company.

### **Amendment of the Company's articles of association**

The Company's articles can be altered in accordance with provisions of Part IV of the Companies Law. Any amendment of the articles of association of the Company may be done by a special resolution of the General Meeting or a written special resolution of the shareholders.

A special resolution requires a majority of no less than three-quarters of the votes recorded (including, where there is a poll, any votes cast by proxy) in order to be passed. In the case of a resolution passed at a General Meeting, notice specifying the intention to propose the resolution has to have been duly given in accordance with article 18 of the Company's articles.

Where the amendment of the Company's articles will result in the variation of the rights of a class of shares, the consent in writing of three-quarters of the nominal amount of the issued shares of that class or a special resolution of the holders of the shares of that class is required.

### **Structure and membership of the Company's Board**

The Board of Directors comprises the non-executive Chairman and two further non-executive Directors. In 2017 there were no changes of the Board of Directors. There is a clear separation of the role of the Directors and the Property Manager, governed by the Property Management Agreement that was entered into on 24 February 2006. The Board identifies the majority of its non-executive Directors, i.e. Mr Andrew Fox and Mr Mark Chasey as independent Directors and Mr Guy Indig as non-independent Director. The Directors provide strategic management and act as the final decision makers for all investment/divestment decisions. The executive and day to day management is provided by the Property Manager whose role and responsibilities are clearly defined in the Property Management Agreement.

The Board meets formally at least four times a year and regular contact is made between the Board and the Property Manager in the intervening periods.

A formal schedule of matters reserved specifically for the Board's decision is approved and reviewed on an ongoing basis by the Board. Such matters include, but are not limited to:

- developing Group strategy and monitoring the progress towards objectives set for management;
- reviewing the Company's capital, operating and management structures;

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- setting the system of internal and financial controls and accounting policies;
- communicating the aims and objectives of the Company to shareholders; and
- ensuring that the Group has effective risk management procedures in operation at all times.

A formal schedule of matters reserved for the Board of the Property Manager is also approved and reviewed on an ongoing basis by the Board.

All members of the Board have access to the advice and services of the Company's Administrator and full and timely access to all relevant information in an appropriate form and of sufficient quality to enable them to discharge their duties and responsibilities. Guidance is provided to Directors on obtaining independent professional advice when necessary and the Company maintains a comprehensive directors' and officers' liability insurance policy.

Appointments to the Board are subject to a formal process of selection involving the Board as a whole. The Directors are appointed for indefinite terms and a third of the Board retire by rotation each year. Directors' terms of appointment provide for prior approval of the Board for the acceptance of any outside appointments. In the event of a request for approval the Director in question is asked to confirm and demonstrate that they can continue to commit sufficient time to the fulfilment of their duties.

### Directors and Directors' share interests

The non-executive Directors who served during the year are detailed in table below. No Director had any direct interest in the share capital of the Company or any of its subsidiaries during the year or the preceding year.

<b>Non-executive Directors</b>	
Mr Andrew Fox	Appointed 16 June 2010
Mr Mark Chasey	Appointed 16 June 2010
Mr Guy Indig	Appointed 16 June 2010

Biographical details for all current Directors are set out on page 18.

The Board is of the view that non-executive appointments for a fixed term would be inappropriate for each of the non-executive Directors due to the nature of the management of the Company. The Articles of the Company do provide for the retirement by rotation of a third of the Board each year.

The Remuneration Report contains details of Directors' remuneration, terms of their appointment and those of the Property Manager and is set out on pages 32 to 33. No other Director had, during the accounting year or in the period to 26 March 2018, any material beneficial interest in any significant contract in the Group's business.

### BOARD COMMITTEES

The Audit Committee comprises the whole of the Board and is chaired by Mr Andrew Fox. It meets at least two times a year to review the interim and year-end financial statements prior to their submission to the Board and to review the appointment of the independent auditors and the scope, performance and remuneration of services provided by them. Procedures are in place for the approval of non-audit services provided by the Company's auditors. The auditors will not be awarded non-audit work unless the Company is satisfied, through enquiry, that the provision of such services would not prejudice the independence and objectivity of the auditor.

The entire Board also forms the Investment Committee in order to appraise and approve or reject investment proposals made by the Property Manager. The Investment Committee meets as and when required.

The Company has not formed a separate Remuneration or Nominations Committee as the Property Management Agreement provides for the remuneration of the Manager and the Board as a whole considers any further appointments.

<b>Attendance at meetings</b>		
	<b>Board of Directors Meetings</b>	<b>Audit Committee Meetings</b>
No. of meetings in the year	<b>9</b>	<b>3</b>
Mr Andrew Fox	4	2
Mr Mark Chasey	6	3
Mr Guy Indig	9	3

No Investment Committee meetings were held in the year because all discussions and decisions related to investment proposals were made during the Board meetings.

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## PROPERTY MANAGER

The Property Manager has also undertaken to maintain the highest standards of corporate governance in line with the direction set by the Board. Where delegated, the Property Manager has continued to put in place a comprehensive system of controls, checks and reporting requirements that they feel provides the ability to maintain these standards.

The Property Manager has a board ("PM board") comprising of two non-executive directors. Additionally it employs Chief Executive Officer and Chief Financial Officer who on daily basis are engaged in the management of the Group. A formal schedule of matters reserved for the decision of the PM board, derived from the role and responsibilities set out in the Agreement has been approved and is reviewed on an ongoing basis.

The PM board collectively approves the appointment of senior management within the Property Manager, details of which are then reported to the Company.

### **The Board of Directors assessment of risk control, compliance, and management systems**

The Board of Directors has a positive opinion on the Company's and Group's existing risk control, compliance and risk management systems as being appropriate for the size of the Group and the complexity of its operations. The Board has no reservations concerning the correctness of its compliance systems introduced and operating in the Group, nor regarding the risk management system which is of particular importance to the Company and the Group.

### **Assessment of the Company's compliance with disclosure obligations**

In the disclosure policy, providing investors with confidential, current, and periodic information, the Management Board takes the current requirements of the law into account. In the opinion of the Board of Directors, in 2017, the Company properly performed its disclosure obligations arising out of the provisions of the law and the Best Practices of the WSE Listed Companies.

### **The Company's policies regarding sponsoring and charitable activities**

The Company does not pursue sponsorship, charity or other similar activities.

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## Remuneration Report

The Directors present their report (the 'Report') on their remuneration, the fees payable to the Property Manager as well as details of payments to directors of subsidiary companies where the services are rendered or procured by external entities that has been prepared in a manner consistent with commonly accepted practice.

### 1) Non-executive Directors

All non-executive Directors have specific terms of appointment that include their membership of the Audit Committee and the fee payable to them for their services. Their remuneration is determined by the Board in accordance with the Articles of Association of the Company. Such fees are reviewed annually with regard to a Director's performance and those fees paid to non-executive Directors of similar companies.

Details of the terms of appointment for those who served as non-executive Directors during the year are:

<b>Non-executive Directors' service contracts</b>			
	<b>Appointment Date</b>	<b>Term</b>	<b>Notice Period</b>
Mr Andrew Fox	16 June 2010	Indefinite	30 days
Mr Mark Chasey	16 June 2010	Indefinite	30 days
Mr Guy Indig	16 June 2010	Indefinite	3 months

### Directors' remuneration

The total amounts for Directors' remuneration were as follows:

<b>Directors' emoluments – representing fees only</b>	<b>2017</b>
	€
<b>Non-executive Directors</b>	
Mr Andrew Fox (GBP17,500)	20,000
Mr Mark Chasey (GBP17,500)	20,000
Mr Guy Indig (GBP20,000)	22,000
<b>Total</b>	<b>62,000</b>
<b>Directors' emoluments – representing fees only</b>	<b>2016</b>
	€
<b>Non-executive Directors</b>	
Mr Andrew Fox (GBP17,500)	21,000
Mr Mark Chasey (GBP17,500)	21,000
Mr Guy Indig (GBP20,000)	24,000
<b>Total</b>	<b>66,000</b>

### 2) Property Manager fees

#### *Management fee*

In consideration of the services to be provided by AMC, AMC will receive an annual management fee of 2% of the previous year's closing adjusted NAV (less any un-invested net proceeds of the IPO or any subsequent equity capital raising). In consideration of the services provided, AMC charged a management fee amounting to €1.6 million for the year ended 31 December 2017 (2016: €1.6 million).

In addition, AMC is entitled to be reimbursed by the Company for all costs and expenses incurred by it in the performance of its obligations under the Property Management Agreement (not including its own internal operating costs).

#### *Performance fee*

On signing the Property Management Agreement, the Company and AMC agreed upon performance related fee that motivates the Property Manager and align their interests with the performance and growth of the Atlas business and the long term enhancement of shareholder value. The Property Management agreement provides for a formal process of performance evaluation that is based on the collective performance of the Property Manager rather than on standalone companies' performance. These performance criteria are based on financial measures assessed over the life of the Property Management Agreement. Procedures are in place to review the approach and resources applied by the Property Manager and its performance throughout the year.



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In addition to the management fee, AMC will receive a performance fee payable if the Total Shareholder Return (means the sum of the growth in adjusted NAV per ordinary share plus an amount equal to the aggregate dividends or other distributions per ordinary share declared or paid in respect of such accounting period expressed as a percentage of the adjusted NAV per ordinary share at the end of the previous accounting period) in any year exceeds 12 per cent (adjusted to make up for any prior years where the Total Shareholder Return was negative – the “Hurdle Rate”). Once this threshold is exceeded, AMC is entitled to receive a fee equal to 25% of the amount by which the Total Shareholder Return for the relevant financial period exceeds the Hurdle Rate for such period multiplied by the previous year’s closing adjusted NAV after the deduction of any dividends declared or to be declared but not yet paid in respect of that period.

One third of any performance fee payable to AMC under the agreement may, at the option of the Company, be paid in the form of new Ordinary Shares issued to AMC at a price equal to the average closing price of the Company’s shares for the 45 days prior to the date of issue of such shares.

AMC’s performance fee accrual in respect of the financial year ended 31 December 2017 is €8.6 million (2016: €nil).

### *Term and Termination*

The Property Management Agreement was to run for an initial seven year term from 24 February 2006. Since the Company did not serve notice to Property Manager by 28 August 2012, the Agreement continues indefinitely after 24 February 2013. Currently the Agreement may be terminated on 12 months’ notice by either party.

The agreement may be terminated at any time for reasons of material breach by either party not remedied within a 90 day period (21 days if the breach relates to non-payment of sums due to the Property Manager) or on the insolvency of either party. The Company may also terminate the Agreement in the event that any of the AMC Shareholders sells (other than to certain categories of intra-group permitted transferees) more than 49 percent of their respective shareholdings in AMC as at the date of Admission or in the event that the AMC Shareholders (or their permitted transferees) between them cease to own collectively at least 75 percent of the issued share capital of AMC. The Company also has the right to terminate the agreement in the event that it becomes tax resident in the United Kingdom for any reason. Upon termination of this Agreement, the Manager shall be entitled to receive all fees and other moneys accrued to it (and unpaid) and a performance fee.

### **3) Members of the subsidiaries’ Management Boards**

The following entities serve as members of the subsidiaries’ Management Board in addition to the Property Manger mentioned above:

- Euryton Trust Management B.V., Dorsha B.V. (representing Dutch subsidiaries) appointed for indefinite period with 6 weeks’ notice period at the fixed fee of €69,500 (plus VAT- the fee also includes administration services provided to the subsidiaries);
- TMF Curacao N.V (representing Atlas Estates Antilles B.V.) appointed for indefinite period with 3 months’ notice period at the fixed annual fee of USD1,500;

The following entities procure services of Directors to the subsidiaries’ Management Board in addition to the Property Manger mentioned above:

- Altea Management S.A. (representing Luxembourg subsidiaries) appointed for indefinite period with 3 months’ notice period at the fixed annual fee of €6,000 (plus VAT).
- Cyproman Services Limited (representing Fernwood Limited) appointed for indefinite period with no notice period at the fixed annual fee of €1,400 (plus VAT);

**Mark Chasey**

**Andrew Fox**

**Guy Indig**

Chairman

Director

Director

26 March 2018

# **ATLAS ESTATES LIMITED**

## **Declarations of the Board of Directors**

### **Declaration concerning accounting policies**

The Board of Directors of Atlas Estates Limited confirms that, to the best of its knowledge, the annual consolidated financial statements together with comparative figures have been prepared in accordance with applicable accounting standards and give a true and fair view of the state of affairs and the financial result of the Group for the period.

The Directors' and Property Manger's Reports in this annual report give a true and fair view of the situation on the reporting date and of the developments during the financial year, and include a description of the major risks and uncertainties.

### **Declaration concerning election of the Company's auditor for the annual audit of the consolidated financial statement**

The Company's auditor has been elected according to applicable rules. The audit firm and its chartered accountants engaged in the audit of the financial statements of Atlas Estates Limited meet the objectives to present an objective and independent report in accordance with applicable rules and professional standards.

**Mark Chasey**  
Chairman

**Andrew Fox**  
Director

**Guy Indig**  
Director

26 March 2018

# ATLAS ESTATES LIMITED

## Independent Auditor's Report to members of ATLAS ESTATES LIMITED

### Opinion

We have audited the financial statements of Atlas Estates Limited ("the Parent Company") and its subsidiaries (the "Group") for the year ended 31 December 2017 which comprise the Consolidated Income Statement, the Consolidated Statement of Comprehensive Income, the Consolidated Statement of Financial Position, the Consolidated Statement of Changes in Equity, the Consolidated Cash Flow Statement and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

In our opinion, the financial statements:

- give a true and fair view of the state of the Group's affairs as at 31 December 2017 and of its profit for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies (Guernsey) Law, 2008.

### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Use of our report

This report is made solely to the Parent Company's members, as a body, in accordance with section 262 of the Companies (Guernsey) Law, 2008. Our audit work has been undertaken so that we might state to the Parent Company's members those matters we are required to state in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Parent Company and the Parent Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

### Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Group's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

### Key audit matter

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) we identified, including those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. This matter was addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on this matter.

Valuation of the Group's Warsaw hotel and group investment properties in accordance with group accounting policy 2.1 (a).

As detailed in note 15, the Group owns two hotel properties which are held at fair value in the Group financial statements. The Hilton managed hotel in Warsaw is material to the Group financial statements, the other hotel in Romania is not. In addition, as detailed in note 16, the Group owns a portfolio of investment properties which are also held at fair value in the Group financial statements.

## ATLAS ESTATES LIMITED

The determination of the fair value of the Warsaw hotel property and investment properties is a key area of estimation and we therefore considered this to be an area of significant audit risk and focus and hence a key audit matter.

Each valuation requires consideration of the individual nature of the property, its location, its existing and future anticipated cash flows and comparable market transactions.

The valuation of the Group's Warsaw hotel asset require significant judgements to be made with regard to the future forecast trading performance of the asset and the assumptions used within the income approach valuation model used.

The valuation of the Group's investment properties requires significant judgements to be made with regard to the trading performance and/or market data and assumptions applied to either the income approach or market comparison approach taken as appropriate.

In all cases, hotel and investment property assets are valued as at the year-end date in accordance with RICS Valuation - Global Standards 2017 or equivalent methodologies by management engaged experts, being independent RICS qualified surveyors. See pages 68 and 69.

### How we addressed the key audit matter in the audit

Our audit work included, but was not restricted to, the following:

- We reviewed the design, implementation and appropriateness of the Group's controls relating to the valuation of properties. The key controls were identified as being the appointment of appropriately qualified independent experts to value the entire property portfolio and the processes by which the Group ensures that accurate data is provided to those experts.
- We assessed the competency, qualifications, independence and objectivity of the external valuers engaged by the Group and reviewed the terms of their engagements for any unexpected arrangements that might bring to bear on the outcome of their work.
- We obtained and read the experts' valuation reports and confirmed on an asset by asset basis that all valuations had been prepared using a methodology that was appropriate for determining the carrying value in the Group's financial statements.
- Senior members of our team met with the experts, independently of management, to further understand and challenge the valuation methodology and key assumptions.
- We tested the accuracy of the key observable valuation inputs supplied to and used by the external valuers. This primarily involved
  - Agreeing, on a sample basis, the passing rental income and lease terms for investment properties to underlying supporting documentations, and
  - Comparing income growth, operating margins and capex for hotel properties to underlying forecasts.
- We compared the key valuation assumptions against our independently formed market and non-market expectations and challenged these where significant variances from expectations were identified. We then considered the plausibility of the independence valuers' responses and verified these to supporting documentation where appropriate. The key valuation assumptions were the market capitalisation yields, estimated income levels or rental values, and discount rates that we reviewed by reference to market data based on the location and specific attributes of each property.
- We reviewed the appropriateness of the Group's disclosures within the financial statements in relation to valuation methodology, key valuation inputs and valuation uncertainty.

### Key observations

Based on our work, we are satisfied that the valuation in respect of the Group's Warsaw hotel and Group's investment properties are appropriate and in accordance with the Group's accounting policies.

### Our application of materiality

We apply the concept of materiality both in planning and performing our audit, and in evaluating the effect of misstatements. We consider materiality to be the magnitude by which misstatements, including omissions, could influence the economic decisions of reasonable users that are taken on the basis of the financial statements. Importantly, misstatements below these levels will not necessarily be evaluated as immaterial as we also take account of the nature of identified misstatements, and the particular circumstances of their occurrence, when evaluating their effect on the financial statements as a whole.

Materiality for the Group financial statement as a whole was calculated at €2,290,000 based on 1% of total assets (2016: €4,300,000 based on 2%) on the basis that the Group is an asset based property investment and development group.

## **ATLAS ESTATES LIMITED**

Materiality for significant components was calculated as 1% of total assets of each component (2016:1%). Materiality for non-significant components is the same as group materiality.

We also determined that for other classes of transactions, balances or disclosures relating to the trading performance, a misstatement of less than materiality for the financial statements as a whole could influence the economic decisions of users. As a result, we determined that a materiality for these areas should be €354,000 (2016: €327,000), representing 1% of revenue. This specific materiality applies to those items which may affect the Group's trading results (being the profit before tax excluding fair value movement on investment properties).

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above €44,500 (2016: €85,000), as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

### **An overview of the scope of our audit**

Our audit of the Group was scoped by obtaining an understanding of the Group and its environment, including the Group's system of internal control, and assessing the risk of material misstatement at the Group level.

Components in Poland, which were audited by our network firm in Poland, were assessed as significant. The Group engagement team reviewed the work carried out by the component auditors and attended the closing meeting in Poland.

18 components in Poland and 1 component in Hungary are subject to full scope audits by BDO network firms. The net asset value of insignificant components that were subject to desktop reviews or specific procedures amount to 8.2% of total assets of the Group.

Audit work required to respond to the assessed risks in key audit matters was performed directly by the Group engagement team.

### **Other information**

The Directors are responsible for the other information. The other information comprises the information included in the Consolidated Financial Statements, including Financial Highlights, Chairman's Statement and Review of the Property Manager, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. 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.

### **Opinion on other matters prescribed by the regulations of the Warsaw Stock Exchange**

In our opinion, the information contained in the Directors' Report on the Group's activities complies with the requirements of the regulations of the Warsaw Stock Exchange issuers and is consistent with the information presented in the accompanying consolidated financial statements.

Based on our knowledge obtained during the audit about the Group and its environment we have identified no material misstatements in the Directors' Report on the Group's activities.

The Parent Company's Management Board and members of its Audit Committee are responsible for the preparation of a declaration on the application of corporate governance in accordance with regulations of the Warsaw Stock Exchange.

In connection with our audit of the consolidated financial statements it was our responsibility to read the declaration on the application of corporate governance, constituting a separate section of the Directors' Report on the Group's activities.

In our opinion, the declaration on the application of corporate governance contains the information specified in paragraph 91 section 5 point 4 letters a, b, g, j, k and l of the Minister's of Finance Decree of 19 February 2009 on the current and periodic information provided by the issuers of securities and on the conditions for recognizing as equally valid the

## ATLAS ESTATES LIMITED

information required by the regulations of a state that is not a member state (2014 Journal of Laws, item 133 with subsequent amendments).

Information provided in paragraph 91 section 5 point 4 letters a, b, g, j, k and l of the Regulation contained in the statement on the application of corporate governance are in accordance with the applicable regulations and information contained in the annual consolidated financial statements.

### **Matters on which we are required to report by exception**

We have nothing to report in respect of the following matters where the Companies (Guernsey) Law, 2008 requires us to report to you if, in our opinion:

- proper accounting records have not been kept by the Company; or
- the financial statements are not in agreement with the accounting records; or
- we have failed to obtain all the information and explanations, which, to the best of our knowledge and belief, are necessary for the purposes of our audit.

### **Responsibilities of Directors**

As explained more fully in the Directors' Responsibilities Statement within the Directors' Report, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are 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 Directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

### **Auditor's responsibilities for the audit of the financial statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's 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 ISAs (UK) 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 financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditor's report.

### **Other matters which we are required to address**

Following the recommendation of the board of directors, we were appointed by members at the Annual General Meeting on 27 June 2008 to audit the financial statements for the year ending 31 December 2008 and re-appointed by members at each subsequent annual General Meeting. The period of total uninterrupted engagement is 10 years, covering the years ending 31 December 2008 to 31 December 2017.

The non-audit services prohibited by the FRC's Ethical Standard were not provided to the Group and we remain independent of the Group in conducting our audit.

Our audit opinion is consistent with the additional report to the audit committee.

We have reported separately on the parent company financial statements of Atlas Estates Limited for the year ended 31 December 2017. That report includes details of the parent company key audit matters; how we applied the concept of materiality in planning and performing our audit; and an overview of the scope of our audit.

*Ian Clayden*  
*For and on behalf of BDO LLP, recognised auditor*  
*London, United Kingdom*  
*26 March 2018*

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).

# ATLAS ESTATES LIMITED

## CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2017

	Year ended 31 December 2017	Year ended 31 December 2016	Note
	€'000	€'000	
Revenues	35,435	32,671	3
Cost of operations	(22,714)	(19,383)	4.1
<b>Gross profit</b>	<b>12,721</b>	<b>13,288</b>	
<i>Property manager fee</i>	<i>(10,241)</i>	<i>(1,646)</i>	
<i>Central administrative expenses</i>	<i>(725)</i>	<i>(621)</i>	
<i>Property related expenses</i>	<i>(4,685)</i>	<i>(4,442)</i>	
Administrative expenses	(15,651)	(6,709)	4.2
Other operating income	610	765	5
Other operating expense	(591)	(567)	6
(Decrease)/ Increase in value of investment properties	(4,748)	3,317	16
<b>(Loss)/ Profit from operations</b>	<b>(7,659)</b>	<b>10,094</b>	
Finance income <i>(including bank debt discount of €19.5 million)</i>	19,895	111	7
Finance costs	(3,370)	(3,994)	7
Other gains/ (losses) – foreign exchange	3,039	(2,983)	7
Share of losses from equity accounted joint ventures	(18)	(97)	12
<b>Profit before taxation</b>	<b>11,887</b>	<b>3,131</b>	
Tax charge	(300)	(835)	8
<b>Profit for the period</b>	<b>11,587</b>	<b>2,296</b>	
<b>Attributable to:</b>			
Owners of the parent	11,587	2,296	
	<b>11,587</b>	<b>2,296</b>	
Profit per €0.01 ordinary share – basic and diluted (eurocents)	24.7	4.9	10

All amounts relate to continuing operations.

The notes on pages 46 to 81 form part of these consolidated financial statements.

# ATLAS ESTATES LIMITED

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2017

	Year ended 31 December 2017	Year ended 31 December 2016	Note
	€'000	€'000	
<b>PROFIT FOR THE PERIOD</b>	<b>11,587</b>	<b>2,296</b>	
<b>Other comprehensive income/ (loss):</b>			
<i>Items that will not be recycled through profit or loss</i>			
Revaluation of buildings	1,442	2,353	15
Deferred tax on revaluation	(274)	(447)	8
<b>Total</b>	<b>1,168</b>	<b>1,906</b>	
<i>Items that may be recycled through profit or loss</i>			
Exchange adjustments	4,470	(2,018)	
Deferred tax on exchange adjustments	(400)	161	8
<b>Total</b>	<b>4,070</b>	<b>(1,857)</b>	
<b>Other comprehensive income/ (loss) for the period (net of tax)</b>	<b>5,238</b>	<b>49</b>	
<b>TOTAL COMPREHENSIVE INCOME FOR THE PERIOD</b>	<b>16,825</b>	<b>2,345</b>	
<b>Total comprehensive income attributable to:</b>			
Owners of the parent	16,825	2,345	
	<b>16,825</b>	<b>2,345</b>	

The notes on pages 46 to 81 form part of these consolidated financial statements.



# ATLAS ESTATES LIMITED

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2017

31 December 2017 31 December 2016

	€'000	€'000	Note
<b>ASSETS</b>			
<b>Non-current assets</b>			
Intangible assets	54	76	13
Land under operating lease - prepayments	11,112	10,608	14
Total investment in equity accounted joint ventures	153	478	12
Property, plant and equipment	76,993	73,301	15
Investment property	92,187	91,918	16
Deferred tax asset	10,395	8,639	25
	<b>190,894</b>	<b>185,020</b>	
<b>Current assets</b>			
Inventories	19,625	19,493	18
Trade and other receivables	3,368	3,907	19
Cash and cash equivalents	15,006	8,100	21
	<b>37,999</b>	<b>31,500</b>	
<b>TOTAL ASSETS</b>	<b>228,893</b>	<b>216,520</b>	
<b>Current liabilities</b>			
Trade and other payables	(34,958)	(15,510)	22
Bank loans	(19,321)	(62,517)	23
Derivative financial instruments	(625)	(690)	24
	<b>(54,904)</b>	<b>(78,717)</b>	
<b>Non-current liabilities</b>			
Other payables	(3,239)	(2,719)	22
Bank loans	(74,181)	(57,804)	23
Deferred tax liabilities	(11,505)	(9,041)	25
	<b>(88,925)</b>	<b>(69,564)</b>	
<b>TOTAL LIABILITIES</b>	<b>(143,829)</b>	<b>(148,281)</b>	
<b>NET ASSETS</b>	<b>85,064</b>	<b>68,239</b>	

The notes on pages 46 to 81 form part of these consolidated financial statements.

# ATLAS ESTATES LIMITED

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2017

	31 December 2017	31 December 2016	Note
	€'000	€'000	
<b>EQUITY</b>			
Share capital account	6,268	6,268	26
Revaluation reserve	19,445	18,277	
Other distributable reserve	194,817	194,817	
Translation reserve	(7,584)	(11,654)	
Accumulated loss	(127,882)	(139,469)	
<b>Issued capital and reserves attributable to owners of the parent – total equity</b>	<b>85,064</b>	<b>68,239</b>	
Basic net asset value per share	€ 1.8	€ 1.5	

The notes on pages 46 to 81 form part of these consolidated financial statements.

The financial statements on pages 39 to 81 were approved by the Board of Directors on 26 March 2018 and signed on its behalf by:

**Mark Chasey**  
Chairman

**Andrew Fox**  
Director

**Guy Indig**  
Director

**26 March 2018**

# ATLAS ESTATES LIMITED

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2017

	Share capital account	Revaluation reserve	Other distributable reserve	Translation reserve	Accumulated loss	Total equity
	€'000	€'000	€'000	€'000	€'000	€'000
As at 1 January 2016	6,268	16,371	194,817	(9,797)	(141,765)	65,894
Profit for the period	-	-	-	-	2,296	2,296
Other comprehensive income for the year	-	1,906	-	(1,857)	-	49
<b>As at 31 December 2016</b>	<b>6,268</b>	<b>18,277</b>	<b>194,817</b>	<b>(11,654)</b>	<b>(139,469)</b>	<b>68,239</b>
Profit for the period	-	-	-	-	11,587	11,587
Other comprehensive loss for the year	-	1,168	-	4,070	-	5,238
<b>As at 31 December 2017</b>	<b>6,268</b>	<b>19,445</b>	<b>194,817</b>	<b>(7,584)</b>	<b>(127,882)</b>	<b>85,064</b>

The Revaluation Reserve includes amounts relating to revaluation of buildings and the related deferred tax. Amounts carried in the revaluation reserve, in respect of land and buildings are not realised gains and are therefore not distributable reserves. Upon the sale of underlying assets these amounts will be crystallised within retained earnings.

The Other Distributable Reserve includes amounts relating to cancellation of share premium, shares bought back and cancelled or held in Treasury, and dividends paid.

The Translation Reserve includes exchange adjustments and the related deferred tax. The Group's Revaluation Reserve and Translation Reserve represent unrealised gains and losses and therefore are not distributable.

The notes on pages 46 to 81 form part of these consolidated financial statements.

# ATLAS ESTATES LIMITED

## CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2017

	Note	31 December 2017	31 December 2016
		€'000	Restated* €'000
<b>Profit for the year</b>		<b>11,587</b>	<b>2,296</b>
<b>Adjustments for:</b>			
Effects of foreign currency		(3,462)	2,893
Finance costs		3,078	3,682
Finance income		(399)	(86)
Tax charge		300	835
Share of losses from equity accounted joint ventures		18	97
Provision for receivables		39	-
Depreciation of property, plant and equipment		2,370	2,374
Amortisation charges		163	163
Loss on disposal of investment property		-	256
Loss on disposal of subsidiary		-	85
Decrease/( Increase)in value of investment properties		4,747	(3,317)
Reversal of impairment on inventory		(981)	(250)
Reversal of impairment on property, plant and equipment		(296)	(275)
Bank loan discount	7	(19,450)	-
		<b>(2,286)</b>	<b>8,753</b>
<b>Changes in working capital</b>			
Decrease/ (Increase) in inventory		910	(2,218)
Decrease/ (Increase) in trade and other receivables		500	(113)
Increase in trade and other payables		21,021	(3,144)
Effects of foreign currency on working capital translation		1,354	(625)
		<b>23,785</b>	<b>(6,100)</b>
<b>Cash inflow from operations</b>		<b>21,499</b>	<b>2,653</b>
Tax paid		(251)	(271)
<b>Net cash from operating activities</b>		<b>21,248</b>	<b>2,382</b>
<b>Investing activities</b>			
Interest received		31	86
Purchase of investment property		(856)	(1,224)
Purchase of property, plant and equipment		(376)	(222)
Cash consideration received in respect of sold subsidiaries- net of cash disposed	32	-	1,389
Proceeds from disposal of investment property		-	356
Purchase of intangible assets – software		(1)	(3)
Loans repaid by equity accounted joint ventures		295	288
<b>Net cash (used in)/ from investing activities</b>		<b>(907)</b>	<b>670</b>

# ATLAS ESTATES LIMITED

	Note	31 December 2017 €'000	31 December 2016 Restated* €'000
<b>Financing activities **</b>			
Interest and loan arrangement fees paid		(3,145)	(3,493)
New bank loans raised	23	23,595	2,255
Repayments of bank loans	23	(32,830)	(16,271)
New loan received from majority shareholder	28f	3,750	3,500
Repayments of loan due to majority shareholder	28f	(5,300)	-
<b>Net cash used in financing activities</b>		<b>(13,930)</b>	<b>(14,009)</b>
<b>Net increase/ (decrease) in cash and cash equivalents in the year</b>			
		<b>6,411</b>	<b>(10,957)</b>
Effect of foreign exchange rates		495	(541)
<b>Net increase/ (decrease) in cash and cash equivalents in the year</b>		<b>6,906</b>	<b>(11,498)</b>
<b>Cash and cash equivalents at the beginning of the year</b>			
		<b>8,100</b>	<b>19,598</b>
<b>Cash and cash equivalent at the end of the year</b>			
	<b>21</b>	<b>15,006</b>	<b>8,100</b>

\*In 2017 the Company changed the presentation of the loan finance received from a majority shareholder. The change has impacted 2016 reported numbers in the following way (affected lines only):

	31 December 2016 Restated €'000	31 December 2016 Reported €'000
Increase/ (decrease) in trade and other payables	(3,144)	356
Changes in working capital	(6,100)	(2,600)
Cash inflow from operations	2,653	6,153
<b>Net cash from operating activity</b>	<b>2,382</b>	<b>5,882</b>
New loan received from majority shareholder	3,500	-
<b>Net cash used in financing activities</b>	<b>(14,009)</b>	<b>(17,509)</b>

The change had no impact on the overall cash flow statement.

\*\* Reconciliation between opening and closing balances in the statement of financial position for liabilities arising from financing activities:

	31 December 2016	Cash flows			Non-cash changes			31 December 2017
		Interests/ arrangement fees	New loans raised	Repayments	FX	Bank loan discount	Interests accrued	
Bank loans (short-term and long-term)	120,321	(3,145)	23,595	(32,830)	2,178	(19,450)	2,833	93,502
Amounts payable to majority shareholder	3,500	-	3,750	(5,300)	-	-	-	1,950

The notes on pages 46 to 81 form part of these consolidated financial statements.

# ATLAS ESTATES LIMITED

## STATEMENT OF ACCOUNTING POLICIES

Year ended 31 December 2017

### *Basis of preparation*

These consolidated financial statements have been prepared in accordance with applicable Guernsey law and International Financial Reporting Standards (“IFRS”) and IFRIC interpretations adopted by the European Union. The consolidated financial statements have been prepared on a going concern basis and on a historical cost basis as amended by the revaluation of land and buildings and investment property and derivatives accounted for as fair value through profit and loss. The principal accounting policies are set out below. These policies have been consistently applied to all the years presented.

As described in the Chairman’s Statement and in the Review of the Property Manager, the economic environment still continues to present a lot of challenges for the Group and its management. Nevertheless, the Group has reported a profit for the year of €11.6 million (compared to profit of €2.3 million in 2016).

The Directors consider that the outlook presents ongoing challenges in terms of the markets in which the Group operates, the effect of fluctuating exchange rates in the functional currencies of the Group and the availability of bank financing for the Group.

As at 31 December 2017 the Group held land and building assets with a market value of €174 million, compared to external debt of €94 million (€179 million and €120 million respectively in 2016). Subject to the time lag in realising the value in these assets in order to generate cash, this “loan to value ratio” gives a strong indication of the Group’s ability to generate sufficient cash in order to meet its financial obligations as they fall due. Any land and building assets and associated debts which are ring-fenced in unique, specific, corporate vehicles, may be subject to repossession by the bank in case of a default of loan terms but will not result in additional financial liabilities for the Company or for the Group. There are also unencumbered assets which could potentially be leveraged to raise additional finance.

In assessing the going concern basis of preparation of the consolidated financial statements for the year ended 31 December 2017, the Directors have taken into account the fact that the Group is in a net current liability position (see page 10 and 11).

However, in considering the group’s net current liability position in the context of ongoing working capital management we note the following:

- Deferred income included in current liabilities of EUR13.3m in relation to sales deposits will be released to the income statement in the subsequent period as sales are completed rather than representing a future cash outflow,
- Property development inventories included in current assets are held at cost and are forecasted to realise cash revenues in excess of this carrying value in future period,
- The classification of one short-term loan of EUR3.7m based on the payment terms was extended until 30 June 2021 by an annex signed post year-end. Separately, the Felikon loan of EUR12.9m is fully ring fenced, so it will not generate cash outflows to the Group above the value of the Felikon property.

Within trade payables of the Group is a performance fee payable to the Property Manager. Details are provided on page 32. The payment terms of this fee are subject to consultation between the parties, and the actual payment will be subject to available cash flows of the Group.

Although the Directors are aware that the management of the liquidity position of the company has been and still continues to be a high priority, the Company so far has been successful in managing its cash position carefully and will continue to do so.

The Group’s forecasts and projections have been prepared taking into account the economic environment and its challenges and the mitigating factors referred to above. These forecasts take into account reasonably possible changes in trading performance, potential sales of properties, favourable arrangements for the payment timetable for the AMC performance fee and the future financing of the Group. They show that the Group will have sufficient facilities for its ongoing operations.

While there will always remain some inherent uncertainty within the aforementioned cash flow forecasts, the Directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. Accordingly the Directors continue to adopt the going concern basis in preparing the consolidated financial statements for the year ended 31 December 2017.

# ATLAS ESTATES LIMITED

## STATEMENT OF ACCOUNTING POLICIES

### ***Basis of consolidation***

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries up to 31 December 2017. Subsidiaries are those entities that are controlled by the Company. Control is achieved where the Company has the power, either directly or indirectly, to govern the financial and operating policies of an entity so as to have the ability to affect the amount of the investor's returns and has exposure or right to variable returns from its involvement with the investee. Subsidiaries are deconsolidated where this control is lost.

The results of subsidiaries and joint ventures acquired or disposed of during the year are included from the effective date of acquisition or up to the effective date of disposal, as appropriate. Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated. Where necessary, adjustments are made to the financial statements of subsidiaries and joint ventures to bring the accounting policies used into line with those used by the Group.

The consolidated financial information is prepared in Euro and presented in thousands of Euro ("€'000") unless indicated otherwise.

Joint ventures are initially recognised in the consolidated statement of financial position at cost. Subsequently, joint ventures are accounted for using the equity method, where the Group's share of post-acquisition profits and losses and other comprehensive income is recognised in the consolidated statement of profit and loss and other comprehensive income (except for losses in excess of the Group's investment in the joint venture unless there is an obligation to make good those losses).

### ***Segmental reporting***

Operating segments are reported in a manner consistent with internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, responsible for allocating resources and assessing performance of the operating segments, has been identified as the Management Board of Atlas Estates Limited that makes strategic decisions.

### ***Revenue recognition***

Revenue comprises:

- (i) rental income, service charge and other recoveries from tenants and the supply of utilities to tenants of the Group's investment and trading properties;
- (ii) hire of hotel rooms, sale of food and beverages; and
- (iii) proceeds of the sale of residential apartments developed by the Group.

Rental income includes income from managed operations such as car parks. Service charges and other recoveries include income from service charges and directly recoverable expenditure and any related chargeable management fees.

Rental income is recognised on a straight line basis over the lease term. Service charges and management fees are recognised as the related costs are incurred and charged. Changes to rental income that arise from reviews to open market rental values or increases that are indexed linked on a periodic basis are recognised from the date on which the adjustment became due. Lease incentives granted are recognised as an integral part of the net consideration for the use of the property. Lease incentives are allocated evenly over the term of the lease. Rental income and services charges are stated net of VAT and other sales related taxes.

Revenue from the hire of hotel rooms, sale of food and beverages is recognised when the service or product is delivered and is stated net of VAT and other sales related taxes.

Revenue from the sale of housing units is recognised when the risks and rewards of ownership have been transferred to the buyer (i.e. when housing units have been handed over to new owners with notarial deed signed) and provided that the Company has no further substantial acts to complete under the contract.

Other revenues, including the sale of utilities and other management fee income, are measured at the fair value of the consideration received or receivable for goods and services provided in the normal course of business, net of VAT and other sales related taxes. These revenues are recognised as the related costs are incurred.

### ***Foreign currencies***

The individual financial statements of each Group company are presented in the currency of the primary economic environment in which it operates (its functional currency). For the purpose of the consolidated financial statements, the results and financial position of each Group company are expressed in Euro, which is

# ATLAS ESTATES LIMITED

## STATEMENT OF ACCOUNTING POLICIES

the functional currency of the Company and the presentation currency for the consolidated financial statements.

Transactions in foreign currencies other than the entity's functional currency are recorded at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary assets and liabilities that are denominated in foreign currencies are translated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value, which are denominated in foreign currencies, are translated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not re-translated.

Gains and losses arising on the settlement of monetary items and on the re-translation of monetary items are included in the income statement for the year. Those that arise on the re-translation of non-monetary items carried at fair value are included in the income statement for the year except for differences arising on the re-translation of non-monetary items in respect of which gains and losses are recognised directly in equity or other comprehensive income. For such non-monetary items any exchange component of that gain or loss is also recognised directly in equity or other comprehensive income.

On consolidation, the assets and liabilities of the Group's overseas operations (none of which has the currency of an hyperinflationary economy) are translated at exchange rates prevailing on the balance sheet date. Income and expense items are translated using the average exchange rates for the year. Exchange differences arising, if any, are classified as equity and transferred to the Group's translation reserve via other comprehensive income. Such translation differences are recognised as income or as expenses in the period in which the operation is disposed.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and are translated at the closing rate, with foreign exchange movements being accounted for through the statement of other comprehensive income.

### **Leases**

Where the Group is the lessee:

Operating leases – leases held by the Group where substantially all risks and rewards of ownership are retained by another party, the lessor, are deemed to be operating leases. All payments made under such leases are charged to the income statement on a straight-line basis over the life of the lease.

Finance leases – are leases where the Group holds substantially all the risks and rewards of ownership. Such leases are capitalised at commencement of the lease at the lower of the fair value of the property and the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges in order that a constant rate may be achieved on the finance balance outstanding. The corresponding rental obligations are included in current and non-current liabilities, net of finance charges. Finance charges are charged to the income statement over the term of the lease so as to produce a constant periodic rate of interest on the outstanding balance. Investment properties acquired under finance leases are carried at their fair value.

Long term lease contracts for land – the Group is the lessee in long-term land lease contracts, which do not result in the transfer of legal title to the land to the Group, and which are classified as operating leases.

The expenditure relating to the purchase of rights from such contracts is initially recognised in the balance sheet at fair value of the payments made and subsequently at amortised cost. They are classified in the balance sheet as land held under operating lease – prepayments.

Where the land held under operating lease is part of an investment property, the operating lease contract for the land is treated as a finance lease in accordance with IAS 40. As a result, at the time the Group enters into the contract, the fair value of future payments under the lease contract is calculated and recognised as a liability. Following the initial recognition, in subsequent accounting periods, the total value of investment property (including the land element) is revalued to fair value and the difference is included in the income statement.

The long-term land lease contracts which are separately disclosed in the balance sheet (i.e. do not qualify as investment property) are charged to the income statement over the lease term and are subject to impairment charges if required.



# ATLAS ESTATES LIMITED

## STATEMENT OF ACCOUNTING POLICIES

Where the Group is the lessor:

Operating leases – properties that are let to tenants under operating leases are classed as investment properties in the balance sheet.

### **Borrowing costs**

Borrowing costs that are directly attributable to the acquisition or construction of qualifying assets, that necessarily take a substantial period of time to get ready for use or sale, are capitalised as part of the cost of those assets until they are substantially ready for use or sale.

All other borrowing costs are recognised in the income statement in the year in which they are incurred.

### **Financial assets**

The Group classifies its financial assets in the following categories: at fair value through profit or loss, loans and receivables, and available for sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

- **Financial assets at fair value through profit or loss**  
Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short-term. Derivatives are also categorised as held for trading unless they are designated as hedges. As at 31 December 2017 and 2016 no financial assets at fair value through profit or loss were held by the Group.
- **Loans and receivables**  
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. Loans and receivables are classified as 'trade and other receivables: other receivables' (note 19). Cash and cash equivalents (note 21) are classified as loans and receivables. Cash and cash equivalents are presented separately in the balance sheet.
- **Available-for-sale financial assets**  
Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. As at 31 December 2017 and 2016, no available-for-sale financial assets were held by the Group.

### **Financial liabilities**

#### **(a) Fair value through profit and loss**

This category comprises only out-of-the-money derivatives. They are carried in the consolidated balance sheet at fair value with changes in fair value recognised in the consolidated statement of comprehensive income. The Group does not hold or issue derivative instruments for speculative purposes, but for hedging purposes. Other than these derivative financial instruments, the Group does not have any liabilities held for trading nor has it designated any financial liabilities as being at fair value through profit and loss.

#### **(b) Amortised cost**

Interest-bearing bank loans and overdrafts are initially recorded at fair value, net of direct issue costs, and are then subsequently measured at amortised cost with interest being calculated using the effective interest rate method.

### **Fair value measurement hierarchy**

IFRS 7 requires certain disclosures which require the classification of financial assets and financial liabilities measured at fair value using a fair value hierarchy that reflects the significance of the inputs used in making the fair value measurement. The fair value hierarchy has the following 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 or indirectly (Level 2)
- Inputs for the asset or liability that are not based on observable market data (Level 3).

For details of the application of this fair value measurement hierarchy within these financial statements, please see notes 15, 16 and 24.

# ATLAS ESTATES LIMITED

## STATEMENT OF ACCOUNTING POLICIES

### ***Intangible assets***

Intangibles represent computer software used in the Group's operations. Computer software is amortised over its useful economic life of five years.

### ***Property, plant and equipment***

Land (except land under operating lease contracts) and buildings held for use in the supply of hotel services are stated in the balance sheet at their revalued amounts, being fair value at the date of revaluation less any subsequent accumulated depreciation and subsequent impairment losses. Revaluations are performed on an annual basis.

Any revaluation increase arising on such assets is credited to the revaluation reserve, except if it reverses a reduction in value for the same property that was previously recognised as an expense. In such an instance the revaluation increase is credited to the income statement to the extent that the previous reduction in value was charged. A decrease in the valuation of land and buildings is charged as an expense to the extent that it exceeds the balance, if any, held on the property revaluation reserve relating to a previous increase in the revaluation of that asset.

Depreciation on revalued properties is charged to income statement. On the subsequent sale or retirement of a revalued property, the attributable revaluation surplus remaining in the property revaluation reserve is transferred directly to retained earnings.

Machinery, office equipment, computers and motor vehicles are stated at cost less accumulated depreciation and any recognised impairment loss.

Depreciation is charged so as to write off the cost of assets over their estimated useful economic lives, using the straight-line method, on the following bases:

Buildings	Over 50 years
Plant and equipment	3 to 10 years
Motor vehicles	5 years
Land is not depreciated.	

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the income statement.

### ***Goodwill***

Business combinations are accounted for using the acquisition method. On acquisition, the assets, liabilities and contingent liabilities of a subsidiary are measured at their fair values at the date of acquisition. Any excess of the purchase price over the fair value of the assets and liabilities acquired is recognised as goodwill. Any discount received is credited to the income statement in the period of acquisition. Goodwill is not amortised but is reviewed for impairment at each balance sheet date. The Group's policy on impairment is set out below.

### ***Impairment***

The carrying amounts of the Group's non-monetary assets, other than investment property, are reviewed at each reporting date. If any indication of impairment of the value of these assets exists, the recoverable amount of the asset is assessed. An impairment loss is recognised in the income statement whenever the carrying amount of an asset exceeds its recoverable amount.

The recoverable value of an asset is the higher of value in use and fair value less costs to sell. Fair value of the asset less costs to sell is assessed by obtaining an independent assessment of asset's market value less any costs that would be incurred to realise its value.

### ***Assets held for sale***

Assets are classified as assets held for sale when their carrying amount is to be recovered principally through a sale transaction and a sale is considered highly probable. They are stated as the lower of carrying amount and fair value less costs to sell if their carrying amount is to be recovered principally through a sale transaction rather than through continuing use.

### ***Investment property***

Investment properties are those that are held either to earn rental income or for capital appreciation or both. Such properties are initially stated at cost, including any related transaction costs. After initial recognition, investment properties are carried at their fair value based on a professional valuation made on annual basis except for most significant property which is subject to professional valuation on semi-annual reporting date.

# ATLAS ESTATES LIMITED

## STATEMENT OF ACCOUNTING POLICIES

At each reporting date the difference between the carrying amount of an investment property and its fair value at that date is included in the income statement as a valuation gain or loss.

### ***Other loans receivable***

Other loans receivable are recognised initially at fair value and subsequently measured using the amortised cost method. The carrying amounts of other loans receivable are reviewed at each reporting date. If any indication of impairment of the value of these assets exists, the recoverable amount of the asset is assessed. An impairment loss is recognised in the income statement whenever the carrying amount of an asset exceeds its recoverable amount.

An impairment of other loans receivable is recognised when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate.

### ***Inventories***

Inventories are stated at the lower of cost and net realisable value. Cost comprises direct materials, direct labour costs, interest costs of financing the development and those overheads that have been incurred in bringing the inventories to their present location and condition. Net realisable value represents the estimated selling price, less all estimated costs of completion and costs to be incurred in marketing and selling the inventories.

### ***Trade receivables***

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost method, less provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 90 days overdue) are considered indicators that the trade receivable is impaired. The amount of the provision is 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 the use of an allowance account, and the amount of the loss is recognised in the income statement within administrative expenses. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against administrative expenses in the income statement.

### ***Cash and cash equivalents***

Cash and cash equivalents consist of cash balances, deposits held at banks and other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within bank loans in current liabilities on the balance sheet. Bank overdrafts that are repayable on demand and which form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

### ***Restricted cash: bank deposits and customer deposits***

Restricted bank deposits consist of deposits in banks that the Group pledged to secure banking facilities for the Group and to which the Group does not have access; and customer deposits to which the Group does have access but which for best practice are treated as restricted. These are included in cash and cash equivalents.

### ***Financial liabilities and equity***

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. As at 31 December 2017 and 2016, the Group had an interest rate swap categorised as financial liability at fair value through profit or loss.

### ***Bank borrowings***

Interest-bearing bank loans and overdrafts are recorded initially at their fair value, net of direct issue costs, then at amortized cost. Finance charges, including premiums payable on settlement or redemption, are accounted for on an accrual basis and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

# ATLAS ESTATES LIMITED

## STATEMENT OF ACCOUNTING POLICIES

When the Group renegotiates the terms of its existing finance arrangements it assesses whether the revised terms represents a modification of the existing arrangement or, in substance, an extinguishment and replacement with a new facility. When the cash flows associated with the revised terms are substantially different from those under the original term the group treats the transaction as an extinguishment and replacement. In such circumstances the carrying value of the original finance is derecognised and replaced with a new liability, measured at fair value, based on future cash flows. Any transaction costs arising as a result of the renegotiation are added to the gain and loss of disposal of the debt instrument, which is recognised in the income statement. Where the cash flows are not substantially different, any difference in the present value of the revised cash flows, together with any fees arising on the renegotiation, are factored into a revised effective interest rate over the remaining term of the instrument. In this case any transaction costs relating to the original facility which are being carried in the Group's balance sheet will continue to be amortised over the life of the facility.

### ***Trade payables***

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

### ***Equity instruments***

Equity instruments issued by the Company are recorded at the proceeds received, net of any direct issue costs.

### ***Treasury shares***

The costs of purchasing Treasury shares are shown as a deduction against equity. The purchase or sale of own shares does not lead to a gain or loss being recognised in the income statement.

### ***Taxation***

With effect from 1 January 2008, Guernsey's corporate tax regime has changed. From that date the exempt company and international business regimes have been abolished as a consequence of which the Company is treated as resident for tax purposes subject to 0% tax. These changes do not adversely affect the tax efficiency of the AEL group corporate structure.

Current tax arises in jurisdictions other than Guernsey. It is based on taxable profit for the year and is calculated using tax rates that have been enacted or substantively enacted. Taxable profit differs from net profit as reported in the income statement because it is adjusted for items of income or expense that are taxable or tax deductible in other years (temporary differences) and items that are never taxable or deductible (permanent differences). Temporary differences principally arise from using different balance sheet values for assets and liabilities than their respective tax base values. Deferred tax is generally provided in respect of all these taxable temporary differences at the balance sheet date.

Deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets are recognised only when, on the basis of all available evidence, it is probable that sufficient taxable profits will be available against which the future reversal of the underlying temporary differences can be deducted.

Such assets and liabilities are not recognised if the temporary differences arise from goodwill or from the initial recognition (other than a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and interests in joint ventures, except where the Group is able to control the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

The measurement of deferred tax liabilities and assets shall reflect the tax consequences that would follow from the manner in which the Company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are not netted off against each other unless they relate to taxes levied by the same authority and arise in the same taxable entity or in different taxable entities that intend to recover the tax assets / settle the liabilities simultaneously on a net basis.

# ATLAS ESTATES LIMITED

## STATEMENT OF ACCOUNTING POLICIES

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also charged or credited to equity.

### **Dividends**

Final dividend payments in respect of a financial year are recognised as a liability in the year in which the dividend payment is approved by the Company's shareholders.

Interim dividends paid are recognised in the year in which the payment is made.

### **Changes to accounting policies since the last period**

The accounting policies adopted and methods of computation are consistent with those of the annual financial statements for the year ended 31 December 2016.

The following standards and interpretations, issued by the IASB or the International Financial Reporting Interpretations Committee (IFRIC), are also effective for the first time in the current financial year and have been adopted by the Group with no significant impact on its consolidated results or financial position for the current reporting period:

- Recognition of deferred tax assets for unrealised losses (Amendments to IAS 12)
- Disclosure Initiative: Amendments to IAS 7

The following standards and interpretations issued by the IASB or IFRIC have not been adopted by the Group as these are not effective for the current year. The Group is currently assessing the impact these standards and interpretations will have on the presentation of its consolidated results in future periods; those that may have a material impact on the financial statements are:

- (a) IFRS 9 'Financial Instruments' (effective date for accounting periods from 1 January 2018).
- (b) IFRS 16 'Leases' (effective date for accounting periods from 1 January 2019). This amendment has not yet been endorsed for use in the EU.
- (c) Amendments to IFRS 9: Prepayment Features with Negative Compensation (effective date for accounting periods from 1 January 2019). This amendment has not yet been endorsed for use in the EU.
- (d) Amendments to IAS 40: Transfers of Investment Property (effective date for accounting periods from 1 January 2018). This amendment has not yet been endorsed for use in the EU.
- (e) IFRIC 22 Foreign Currency Transactions and Advance Consideration (effective date for accounting periods from 1 January 2018). This amendment has not yet been endorsed for use in the EU.
- (f) IFRIC 23 Uncertainty over Income Tax Treatments (effective date for accounting periods from 1 January 2019). This amendment has not yet been endorsed for use in the EU.

The Group has already assessed the impact of IFRS 15 'Revenue from contracts with Customers' (effective date for accounting periods from 1 January 2018) as well as Clarifications to IFRS 15 'Revenue from Contracts with Customers' (effective date for accounting periods from 1 January 2018) and concluded that it will not have any significant impact on its consolidated results or financial position in the future.

# ATLAS ESTATES LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 1. Financial risk management

#### 1.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, price risk and cash flow interest rate risk), credit risk and liquidity risk. The financial risks relate to the following financial instruments: trade receivables, cash and cash equivalents, trade and other payables and borrowings. The accounting policy with respect to these financial instruments is described above.

Risk management is carried out by the Property Manager under policies approved by the Board of Directors. The Property Manager identifies and evaluates financial risks in close co-operation with the Group's operating units. The Board approves written principles for overall risk management, and is overseeing the development of policies covering specific areas such as foreign exchange risk and interest-rate risk. The Property Manager may call upon the services of a retained risk management consultant in order to assist with its risk assessment tasks.

Reports on risk management are produced periodically on an entity and territory level to the key management personnel of the Group.

#### (a) Market risk

##### (i) Foreign exchange risk

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the Euro, Polish Zloty, Hungarian Forint, and Romanian Lei. Foreign exchange risk arises from future commercial transactions, recognised monetary assets and liabilities and net investments in foreign operations.

In 2017 Polish functional currency appreciated significantly by 6% as compared to 2016 (4% depreciation). The movements in value of the functional currencies have resulted in foreign exchange gain of €3.0 million in the income statement (2016: €3.0 million loss) and €4.5 million gain (2016: €2.0 million loss) in other comprehensive income for the year ended 31 December 2017.

In the year covered by these consolidated financial statements the Group has not entered into any currency hedging transactions. Foreign exchange risk is monitored and the cost benefits of any potential currency hedging transactions are reviewed to determine their effectiveness for the Group.

The tables below summarise the Group's exposure to foreign currency risk at 31 December 2017.

The group's financial assets and liabilities held in Euros, at their carrying amounts are included in the table, categorised by the functional currency of the company that holds these instruments.

2017	PLN €'000	HUF €'000	RON €'000	Total €'000
Cash and cash equivalents	1,938	2	172	2,112
<b>Total financial assets</b>	<b>1,938</b>	<b>2</b>	<b>172</b>	<b>2,112</b>
Trade and other payables	(89)	-	-	(89)
Borrowings, including finance leases	(45,700)	(12,905)	(2,395)	(61,000)
Derivative financial instruments	(705)	-	-	(705)
<b>Total financial liabilities</b>	<b>(46,494)</b>	<b>(12,905)</b>	<b>(2,395)</b>	<b>(61,794)</b>
<b>Net financial (liabilities) / assets</b>	<b>(44,556)</b>	<b>(12,903)</b>	<b>(2,223)</b>	<b>(59,682)</b>

# ATLAS ESTATES LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2016	PLN €'000	HUF €'000	RON €'000	Total €'000
Trade and other receivables	2	-	-	2
Cash and cash equivalents	1,225	1	36	1,262
<b>Total financial assets</b>	<b>1,227</b>	<b>1</b>	<b>36</b>	<b>1,264</b>
Trade and other payables	(278)	-	-	(278)
Borrowings, including finance leases	(70,561)	(13,612)	(2,560)	(86,733)
Derivative financial instruments	(747)	-	-	(747)
<b>Total financial liabilities</b>	<b>(71,586)</b>	<b>(13,612)</b>	<b>(2,560)</b>	<b>(87,758)</b>
<b>Net financial (liabilities) / assets</b>	<b>(70,359)</b>	<b>(13,611)</b>	<b>(2,524)</b>	<b>(86,494)</b>

The sensitivity analyses below are based on a change in an assumption while holding all other assumptions constant. In practice this is unlikely to occur and changes in some of the assumptions may be correlated – for example, change in interest rate and change in foreign currency rates. The Group manages foreign currency risk on an overall basis. The sensitivity analysis prepared by management for foreign currency risk illustrates how changes in the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

If the euro weakened/ strengthened by 10% against the Polish Zloty with all other variables held constant, post-tax profit for the year would have been €5.8 million higher/ €4.8 million lower.

If the euro weakened/ strengthened by 10% against the Hungarian Forint with all other variables held constant, post-tax profit for the year would have been €1.3 million higher/ €1.0 million lower.

If the euro weakened/ strengthened by 10% against the Romanian Lei with all other variables held constant, post-tax profit for the year would have been €0.4 million higher/ €0.3 million lower.

### (ii) Price risk

The Group is exposed to property price, property rental value, and hotel rate risks. The Group is not exposed to the market risk with respect to financial instruments as it does not hold any equity securities.

### (iii) Cash flow and fair value interest rate risk

The Group's interest rate risk arises from long-term borrowings (note 23). Borrowings issued at variable rates expose the Group to cash flow interest rate risk.

The Group's cash flow and fair value interest rate risk is periodically monitored by the Property Manager. The Property Manager analyses its interest rate exposure on a dynamic basis. It takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest costs may increase as a result of such changes. They may reduce or create losses in the event that unexpected movements arise. Various scenarios are considered including refinancing, renewal of existing positions, alternative financing and hedging. The scenarios are reviewed on a periodic basis to verify that the maximum loss potential is within the limit given by management. During the year ended 31 December 2017, the Group had three interest rate swap agreements to mitigate the cash flow and interest rate risk related to some of its borrowings (2016: two interest rate swap agreements).

Trade and other receivables and payables are interest-free and have settlement dates within one year.

The sensitivity analyses below are based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated – for example, change in interest rate and change in market values.

An increase/ decrease in 100 basis points in interest yields would result in an decrease/ increase in the post-tax profit for the year of €0.2 million (2016: decrease/ increase in the post-tax loss for the year of €0.4 million).

The Group has three derivative financial liabilities, being an interest rate swaps which falls into level 2 for fair value measurement (as disclosed in note 24 of the consolidated financial statements).

# ATLAS ESTATES LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### (b) Credit risk

Credit risk arises from cash and cash equivalents as well as credit exposures with respect to rental customers, including outstanding receivables (note 19). Credit risk is managed on a local and group basis and structures the levels of credit risk it accepts by placing limits on its exposure to a single counterparty, or groups of counterparty, and to geographical and industry segments. Such risks are subject to an annual and more frequent review. The Group has policies in place to ensure that where possible rental contracts are made with customers with an appropriate credit history. Cash transactions are limited to high-credit-quality financial institutions. The utilisation of credit limits is regularly monitored.

The maximum credit risk exposure in relation to financial assets, being cash and cash equivalents and trade and other receivables is the carrying value of those assets for the year, namely €18.4 million (2016: €12.0 million).

Cash is held with the following banks which have the following rating as at 31 December 2017 and 2016:

Bank	Rating	2017	Bank	Rating	2016
Bank Pekao S.A.	A-	9,896	Bank Pekao S.A.	A-	6,246
Bank Zachodni WBK S. A.	BBB+	2,310	ING Bank N.V.	A+	812
Alpha Bank	RD	730	BRE Bank S.A.	BBB	498
BRE Bank S.A.	BBB	556	Piraeus Bank	RD	183
ABN AMRO (Guernsey) Ltd	A+	278	ABN AMRO (Guernsey) Limited	A+	113
Other		1,236	Other		248
		<b>15,006</b>			<b>8,100</b>

Given the above, as well as the short-term nature of those investments, the credit risk associated with cash and cash equivalents is considered to be low.

### (c) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. Due to the dynamic nature of the underlying businesses, the Property Manager aims to maintain flexibility in funding by keeping cash and committed credit lines available.

The Group's liquidity position is monitored on a weekly basis by management and is reviewed quarterly by the Board of Directors. A summary table with the maturity of financial assets and liabilities is presented below.

	31 December 2017	31 December 2016
	€'000	€'000
<b>Financial assets – non- current</b>		
Total investment in equity accounted joint ventures	153	478
	<b>153</b>	<b>478</b>
<b>Financial assets – current</b>		
Trade and other receivables – maturity within one year	2,976	3,215
Cash and cash equivalents – maturity within one year	15,006	8,100
	<b>17,982</b>	<b>11,315</b>
<b>Financial liabilities – non-current borrowings</b>		
Between 1 and 2 years	(5,531)	(7,410)
Between 2 and 5 years	(37,307)	(16,908)
Over 5 years	(45,355)	(46,394)
	<b>(88,193)</b>	<b>(70,712)</b>
<b>Financial liabilities – current</b>		
Borrowings	(22,307)	(65,656)
Trade and other payables – maturity within one year	(29,810)	(11,418)
	<b>(52,117)</b>	<b>(77,074)</b>



# ATLAS ESTATES LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Included in trade and other payables are deposits received from customers from the pre-sale of apartments in development. These amount to €13.3 million (2016: €1.4 million) and will be released to the income statement upon completion of the development.

The status of current negotiations on loans is disclosed in note 23 as part of the bank loans note.

### 1.2 Capital risk management

The Directors consider capital to consist of the Group's debt and equity. 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 others in the industry, the Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total bank borrowings less cash and cash equivalents. Total capital is calculated as equity, as shown in the consolidated balance sheet, plus net debt.

The Group's longer term strategy is to maintain a gearing ratio below 80% taking into consideration current market conditions. The gearing ratio as at 31 December 2017 and 31 December 2016 was as follows:

	31 December 2017	31 December 2016
	€'000	€'000
Total bank borrowings	(93,502)	(120,321)
Less: cash and cash equivalents	15,006	8,100
<b>Net debt</b>	<b>(78,496)</b>	<b>(112,221)</b>
Total equity attributable to owners of the parent	(85,064)	(68,239)
<b>Total capital</b>	<b>(163,560)</b>	<b>(180,460)</b>
<b>Gearing ratio</b>	<b>48%</b>	<b>62%</b>

Included in cash and cash equivalents is €7.1 million (2016: €4.4 million) restricted cash relating to restricted proceeds, security, customer deposits and loan financing.

## 2. Critical accounting estimates and judgements

Estimates and judgments are continually evaluated and are based on historical experience as adjusted for current market conditions and other factors.

### 2.1 Critical accounting estimates and assumptions

Management makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are outlined below.

#### *(a) Estimate of fair value of investment properties and property, plant and equipment*

The Property Manager engages qualified experts to assist in its assessment of the fair values of investment properties and of property, plant and equipment. All investment property and property, plant and equipment is re-valued on an annual basis by appropriately qualified, independent valuers. The valuations are prepared in accordance with generally accepted international valuation methods and procedures. Any assumptions made by the valuer are reviewed by the Board and the Property Manager for their reasonableness (see more details in note 15 and 16).

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## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### *(b) Inventory*

The Group's main activities are the development and sale of residential apartments. The process of obtaining zoning and permits may in itself take some time. This period is then added to by the time taken to construct the apartments. Throughout this time the purchase cost of the land and the construction costs are recorded within inventory. The Group continually reviews the net realisable value of its development properties against the cumulative costs that are held on its balance sheet within inventory.

To enable this review, management have appointed an appropriately qualified engineer to monitor and control the costs of construction. The costs that have been incurred and are projected to be incurred are benchmarked against those available in the market to ensure that best value is received. A strict tendering process is adhered to when procuring construction services and the costs are controlled locally on a regular basis. Qualified experts undertake an independent assessment of the net realisable value of its developments.

### *(c) Income taxes*

The Group is subject to income taxes in different jurisdictions. Significant estimates are required in determining the worldwide provision for income taxes. There are some transactions and calculations for which the ultimate tax determination is uncertain. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. 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.

## **2.2 Critical judgments in applying the Group's accounting policies**

### *Distinction between investment properties and owner-occupied properties*

The Group determines whether a property qualifies as investment property. In making its judgment, the Group considers whether the property generates cash flows largely independently of the other assets held by an entity. Owner-occupied properties generate cash flows that are attributable not only to property but also to other assets used in the production or supply process.

Some properties comprise a portion that is held to earn rentals or for capital appreciation and another portion that is held for use in the supply of goods or services. If these portions can be sold separately, or leased out separately under a finance lease, the Group accounts for the portions separately. If the portions cannot be sold separately, the property is accounted for as investment property only if an insignificant portion is held for use in the production or supply of goods or services or for administrative purposes. Judgment is applied in determining whether ancillary services are so significant that a property does not qualify as investment property. The Group considers each property separately in making its judgment.

## **3. Segmental information**

### **3.1 Operating segments**

Management has determined the operating segments based on the reports reviewed by the property manager's executive management that are used to make strategic decisions.

For management purposes, the Group is currently organised into three operating divisions – the ownership and management of investment property, the development and sale of residential property and the ownership and operation of hotels.

The Property Manager's executive management assesses the performance of the operating segments based on the income statement. This measurement basis includes the effects of non-recurring expenditure from the operating segments such as restructuring costs, legal expenses and impairments when the impairment is the result of an isolated, non-recurring event. Interest income and expenditure are also allocated to segments, as this type of activity is directly related to each property within each sector.

# ATLAS ESTATES LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

The segment information provided to the Property Manager's executive management for the reportable segments for the year ended 31 December 2017 is as follows:

Year ended 31 December 2017	Property rental €'000	Development properties €'000	Hotel operations €'000	Other €'000	Total €'000
Revenues	10,260	5,499	19,628	48	35,435
Cost of operations	(4,466)	(5,806)	(12,442)	-	(22,714)
<b>Gross profit</b>	<b>5,794</b>	<b>(307)</b>	<b>7,186</b>	<b>48</b>	<b>12,721</b>
Administrative expenses	(847)	(529)	(3,116)	(11,159)	(15,651)
<b>Gross profit/ (loss) less administrative expenses</b>	<b>4,947</b>	<b>(836)</b>	<b>4,070</b>	<b>(11,111)</b>	<b>(2,930)</b>
Other operating income	289	7	310	4	610
Other operating expenses	(142)	(306)	(48)	(95)	(591)
Decrease in value of investment properties	(4,748)	-	-	-	(4,748)
<b>Profit/ (Loss) from operations</b>	<b>346</b>	<b>(1,135)</b>	<b>4,332</b>	<b>(11,202)</b>	<b>(7,659)</b>
Finance income	19,536	5	351	3	19,895
Finance cost	(1,261)	(13)	(2,091)	(5)	(3,370)
Finance costs - other gains – foreign exchange	2,652	(131)	173	345	3,039
Share of losses from equity accounted joint ventures	-	(18)	-	-	(18)
<b>Segment result before tax</b>	<b>21,273</b>	<b>(1,292)</b>	<b>2,765</b>	<b>(10,859)</b>	<b>11,887</b>
Tax (expense)/ credit	-	84	(376)	(8)	(300)
<b>Profit for the period as reported in the income statement as attributable to owners of the parent</b>					<b>11,587</b>
<b>Year ended 31 December 2017</b>	<b>Property rental €'000</b>	<b>Development properties €'000</b>	<b>Hotel operations €'000</b>	<b>Other €'000</b>	<b>Total €'000</b>
<b>Reportable segment assets</b>	105,170	29,301	93,533	-	228,004
Unallocated assets	-	-	-	889	889
<b>Total assets</b>	<b>105,170</b>	<b>29,301</b>	<b>93,533</b>	<b>889</b>	<b>228,893</b>
<b>Reportable segment liabilities</b>	(61,332)	(14,597)	(56,250)	-	(132,179)
Unallocated liabilities	-	-	-	(11,650)	(11,650)
<b>Total liabilities</b>	<b>(61,332)</b>	<b>(14,597)</b>	<b>(56,250)</b>	<b>(11,650)</b>	<b>(143,829)</b>
<b>Year ended 31 December 2017</b>	<b>Property rental €'000</b>	<b>Development properties €'000</b>	<b>Hotel operations €'000</b>	<b>Other €'000</b>	<b>Total €'000</b>
<b>Other segment items</b>					
Capital expenditure	856	21	345	11	1,233
Depreciation	16	-	2,349	5	2,370
Amortisation	-	44	117	2	163

# ATLAS ESTATES LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2016	Property rental	Development properties	Hotel operations	Other	Total
	€'000	€'000	€'000	€'000	€'000
Revenues	10,643	2,762	19,136	130	32,671
Cost of operations	(5,471)	(2,344)	(11,565)	(3)	(19,383)
<b>Gross profit</b>	<b>5,172</b>	<b>418</b>	<b>7,571</b>	<b>127</b>	<b>13,288</b>
Administrative expenses	(882)	(462)	(2,827)	(2,538)	(6,709)
<b>Gross profit/ (loss) less administrative expenses</b>	<b>4,290</b>	<b>(44)</b>	<b>4,744</b>	<b>(2,411)</b>	<b>6,579</b>
Other operating income	59	335	281	90	765
Other operating expenses	(333)	(117)	(25)	(92)	(567)
Increase in value of investment properties	3,317	-	-	-	3,317
<b>Profit/ (Loss) from operations</b>	<b>7,333</b>	<b>174</b>	<b>5,000</b>	<b>(2,413)</b>	<b>10,094</b>
Finance income	37	60	(3)	17	111
Finance cost	(1,583)	(8)	(2,399)	(4)	(3,994)
Finance costs - other gains – foreign exchange	(2,380)	86	(249)	(440)	(2,983)
Share of losses from equity accounted joint ventures	-	(97)	-	-	(97)
<b>Segment result before tax</b>	<b>3,407</b>	<b>215</b>	<b>2,349</b>	<b>(2,840)</b>	<b>3,131</b>
Tax (expense)/ credit	(228)	(22)	(553)	(32)	(835)
<b>Profit for the period as reported in the income statement as attributable to owners of the parent</b>					<b>2,296</b>

  

Year ended 31 December 2016	Property rental	Development properties	Hotel operations	Other	Total
	€'000	€'000	€'000	€'000	€'000
<b>Reportable segment assets</b>	102,562	25,426	87,342	-	215,330
Unallocated assets	-	-	-	1,190	1,190
<b>Total assets</b>	<b>102,562</b>	<b>25,426</b>	<b>87,342</b>	<b>1,190</b>	<b>216,520</b>
<b>Reportable segment liabilities</b>	(84,186)	(4,836)	(55,029)	-	(144,051)
Unallocated liabilities	-	-	-	(4,230)	(4,230)
<b>Total liabilities</b>	<b>(84,186)</b>	<b>(4,836)</b>	<b>(55,029)</b>	<b>(4,230)</b>	<b>(148,281)</b>

  

Year ended 31 December 2016	Property rental	Residential sales	Hotel operations	Other	Total
	€'000	€'000	€'000	€'000	€'000
<b>Other segment items</b>					
Capital expenditure	1,224	93	132	-	1,449
Depreciation	13	-	2,361	-	2,374
Amortisation	-	43	114	6	163

# ATLAS ESTATES LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

There are immaterial sales between the business segments.

Segment assets include investment property, property, plant and equipment, intangible assets, inventories, debtors and operating cash. Segment liabilities comprise operating liabilities and financing liabilities.

Unallocated assets represent cash balances, receivables and other assets held by the Company and those of selected sub-holding companies, and deferred tax assets.

Unallocated liabilities include accrued costs and deferred taxation liabilities within the Company and selected sub-holding companies as at the balance sheet date.

Unallocated costs represent corporate expenses.

### Regional Analysis

The Group manages its business segments on a region wide basis. The operations in the reporting periods were based in four main countries within the Group's region of focus with mainly cash balances being held by the parent company. The four principal territories were:

1. Poland,
2. Hungary,
3. Romania, and
4. Bulgaria.

Year ended 31 December 2017	Revenue €'000	Non current assets €'000	Capital expenditure €'000	Depreciation €'000	Amortisation €'000
Poland	28,576	162,172	1,088	2,241	163
Hungary	5,091	11,787	-	2	-
Bulgaria	318	2,789	-	10	-
Romania	1,450	14,147	145	117	-
<b>Total</b>	<b>35,435</b>	<b>190,895</b>	<b>1,233</b>	<b>2,370</b>	<b>163</b>

Year ended 31 December 2016	Revenue €'000	Non current assets €'000	Capital expenditure €'000	Depreciation €'000	Amortisation €'000
Poland	29,641	157,753	1,388	2,308	163
Hungary	1,356	11,767	-	-	-
Bulgaria	312	2,796	-	1	-
Romania	1,362	12,704	61	65	-
<b>Total</b>	<b>32,671</b>	<b>185,020</b>	<b>1,449</b>	<b>2,374</b>	<b>163</b>

### 4. Analysis of expenditure

#### 4.1 Cost of operations

	31 December 2017 €'000	31 December 2016 €'000
Costs of sale of development property	(6,421)	(1,890)
Utilities, services rendered and other costs	(9,010)	(9,639)
Legal and professional expenses	(1,503)	(1,416)
Staff costs	(5,069)	(4,761)
Sales and direct advertising costs	(1,060)	(884)
Depreciation and amortisation	(632)	(729)
(Impairment)/ Reversal of impairment on inventory	981	(64)
<b>Cost of operations</b>	<b>(22,714)</b>	<b>(19,383)</b>

# ATLAS ESTATES LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 4.2 Administrative expenses

	31 December 2017	31 December 2016
	€'000	€'000
Fees payable to the Group's auditor for the audit of the Company and its consolidated financial statements	(87)	(91)
Fees payable to the Group's auditor for the other services:		
- Audit of subsidiaries of the Company pursuant to legislation	(48)	(47)
- Non audit services – interim reviews	(31)	(34)
- Non audit services – taxation services	-	-
- Other compliance services	-	-
Other professional services	(114)	(104)
Incentive and management fee	(10,241)	(1,646)
Legal and other professional fees	(763)	(1,095)
Utilities, services rendered and other costs	(1,491)	(950)
Staff costs	(879)	(824)
Depreciation and amortisation	(1,901)	(1,808)
Other administrative expenses	(96)	(110)
<b>Administrative expenses</b>	<b>(15,651)</b>	<b>(6,709)</b>

### 4.3 Employee benefit expenses

	31 December 2017	31 December 2016
	€'000	€'000
Wages, salaries and other employee benefit costs	5,938	5,459
Social security costs	688	646
<b>Employee benefit expenses</b>	<b>6,626</b>	<b>6,105</b>
<b>Average number of employees</b>	<b>253</b>	<b>262</b>

### 5. Other operating income

	31 December 2017	31 December 2016
	€'000	€'000
Income from insurance	32	33
Income from penalty charges on cancelled contracts	-	18
Income from compensations received	243	-
Write back of other payables	6	24
Reversal of impairment on property, plant and equipment	296	275
Reversal of land bank impairment	-	314
Other	33	101
<b>Other operating income</b>	<b>610</b>	<b>765</b>

### 6. Other operating expenses

	31 December 2017	31 December 2016
	€'000	€'000
Penalty charges, interest and fees	(79)	(73)
Loss on disposal of investment property	-	(256)
Loss on deconsolidation of the subsidiary (note 32)	-	(85)
Write off of other receivables	(293)	-
Other	(219)	(153)
<b>Other operating expenses</b>	<b>(591)</b>	<b>(567)</b>

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## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 7. Finance income and finance costs – net

	31 December 2017	31 December 2016
	€'000	€'000
Interest payable on bank borrowings	(2,774)	(3,468)
Loss on interest rate derivative	(262)	(100)
Other similar charges	(334)	(426)
<b>Finance costs</b>	<b>(3,370)</b>	<b>(3,994)</b>
Bank loan discount (refer to page 11)	19,450	-
Gain on interest rate derivative	368	-
Other	77	111
<b>Finance income – interest income</b>	<b>19,895</b>	<b>111</b>
<b>Finance income/ (costs), excluding foreign exchange – net</b>	<b>16,525</b>	<b>(3,883)</b>
Unrealised foreign exchange gains	2,847	1,261
Unrealised foreign exchange losses	(1,840)	(3,857)
Realised foreign exchange gains	2,108	84
Realised foreign exchange losses	(76)	(471)
<b>Other gains and (losses) – foreign exchange</b>	<b>3,039</b>	<b>(2,983)</b>
<b>Finance income/ (costs), including foreign exchange – net</b>	<b>19,564</b>	<b>(6,866)</b>

### 8. Tax expense

	31 December 2017	31 December 2016
	€'000	€'000
<b>Continuing operations</b>		
Current tax on profits for the year	(228)	(313)
Adjustment in respect of prior periods	-	-
Total current tax	(228)	(313)
Deferred tax	(72)	(522)
<b>Tax charge for the year</b>	<b>(300)</b>	<b>(835)</b>

#### Tax on items charged to equity

	31 December 2017	31 December 2016
	€'000	€'000
Deferred tax on revaluation	(274)	(447)
Deferred tax on exchange movements offset in reserves	(400)	161
	<b>(674)</b>	<b>(286)</b>

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## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Taxation has been calculated by applying the standard corporate tax rates ruling in each operating territory. The difference between the total current tax shown above and the amount calculated by applying the standard rates of corporation tax to the profit before tax is as follows:

	31 December 2017	31 December 2016
	€'000	€'000
<b>Profit before tax</b>	<b>11,887</b>	<b>3,131</b>
Tax on profit at average country rate 4.96% (2016: 10.28%)	(590)	(322)
Factors affecting charge:		
Permanent differences	(560)	(592)
- <i>Other permanent differences</i>	(560)	(592)
Losses for which deferred tax is not recognized in current year	(316)	(593)
Reversal of write down/ (Write down) of a deferred tax asset	1,166	672
<b>Tax credit for year</b>	<b>(300)</b>	<b>(835)</b>

There is an unrecognised gross deferred tax asset in relation to losses of €5.5 million (2016: €5.3 million). Expiration date of unrecognised tax losses (amounts presented at relevant tax rates) is as follows:

	31 December 2017	31 December 2016
	€'000	€'000
2017	-	207
2018	240	322
2019	672	620
2020	323	287
2021	449	501
2022	544	121
2023	2,692	2,689
2024	17	-
2025	556	517
	<b>5,493</b>	<b>5,264</b>

### 9. Dividends

There were no dividends declared or paid in the years ended 31 December 2017 and 31 December 2016.

### 10. Earnings per share

Basic earnings per share is calculated by dividing the profit after tax attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the period.

Reconciliations of the profits and weighted average number of shares used in the calculations are set out below:

Year ended 31 December 2017	Profit	Weighted average number of shares	Per share amount
Continuing operations	€'000		Eurocents
<b>Basic EPS</b>			
Profit attributable to equity shareholders of the Company	11,587	46,852,014	24.7
<b>Diluted EPS</b>	<b>11,587</b>	<b>46,852,014</b>	<b>24.7</b>
Adjusted profit			



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## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2016	Profit	Weighted average number of shares	Per share amount
Continuing operations	€'000		Eurocents
<b>Basic EPS</b>			
Profit attributable to equity shareholders of the Company	2,296	46,852,014	4.9
<b>Diluted EPS</b>			
Adjusted profit	<b>2,296</b>	<b>46,852,014</b>	<b>4.9</b>

### 11. Goodwill

	31 December 2017	31 December 2016
	€'000	€'000
<b>Cost</b>		
At beginning of year	1,550	1,550
<b>At end of year</b>	<b>1,550</b>	<b>1,550</b>
<b>Aggregate impairment</b>		
At beginning of year	(1,550)	(1,550)
<b>At end of year</b>	<b>(1,550)</b>	<b>(1,550)</b>
<b>Net book amount at end of year</b>	<b>-</b>	<b>-</b>

### 12. Joint ventures

As detailed in note 32, the group has a 50% interest in a jointly controlled entity (based on the percentage of shares held and attributable voting right), which have been accounted for by equity method in the consolidated financial statements.

The Group's 50% share of joint venture's summarized financial information is presented below:

	31 December 2017	31 December 2016
	€'000	€'000
Non-current assets	889	1,035
Current assets	164	507
Current liabilities	(871)	(1,012)
Non-current liabilities	(29)	(52)
<b>Net assets</b>	<b>153</b>	<b>478</b>
<i>Included in the above amounts are:</i>		
Cash and cash equivalents	-	223
Income	151	525
Expenses	(169)	(622)
<b>Profit/ (Loss) after tax</b>	<b>(18)</b>	<b>(97)</b>
<i>Included in the above amounts are:</i>		
Interests expense	(15)	(22)
Income tax (expense) / income	(7)	(39)

# ATLAS ESTATES LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 13. Intangible assets

	Computer software €'000
<b>Cost</b>	
<b>At 1 January 2016</b>	825
Additions	3
Exchange adjustments	(29)
<b>At 31 December 2016</b>	<b>799</b>
Additions	1
Disposals	-
Exchange adjustments	46
<b>At 31 December 2017</b>	<b>846</b>
<b>Accumulated amortisation</b>	
<b>At 1 January 2016</b>	(723)
Charge for the year	(30)
Exchange adjustments	30
<b>At 31 December 2016</b>	<b>(723)</b>
Charge for the year	(27)
Disposals	-
Exchange adjustments	(42)
<b>At 31 December 2017</b>	<b>(792)</b>
<b>Net book value at 31 December 2017</b>	<b>54</b>
Net book value at 31 December 2016	76

### 14. Land under operating lease - prepayments

Land under operating lease - prepayments which arose under business combinations during 2006.

	Land under operating lease €'000
<b>Cost</b>	
<b>At 1 January 2016</b>	12,690
Additions	-
Exchange adjustments	(466)
<b>At 31 December 2016</b>	<b>12,224</b>
Additions	-
Exchange adjustments	742
<b>At 31 December 2017</b>	<b>12,966</b>
<b>Accumulated amortisation</b>	
<b>At 1 January 2016</b>	(1,541)
Charge for the year	(133)
Exchange adjustments	58
<b>At 31 December 2016</b>	<b>(1,616)</b>
Charge for the year	(136)
Exchange adjustments	(102)
<b>At 31 December 2017</b>	<b>(1,854)</b>
<b>Net book value at 31 December 2017</b>	<b>11,112</b>
Net book value at 31 December 2016	10,608

# ATLAS ESTATES LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 15. Property, plant and equipment

	Buildings €'000	Plant and equipment €'000	Motor vehicles €'000	Total €'000
<b>Cost or valuation</b>				
At 1 January 2016	76,198	11,825	63	88,086
Additions at cost	58	164	-	222
Exchange adjustments	(2,961)	(414)	(2)	(3,377)
Disposals	(302)	-	-	(302)
Revaluation	964	-	-	964
<b>At 31 December 2016</b>	<b>73,957</b>	<b>11,575</b>	<b>61</b>	<b>85,593</b>
Additions at cost	343	33	-	376
Exchange adjustments	4,630	662	2	5,294
Disposals	(5)	-	-	(5)
Revaluation	-	-	-	-
<b>At 31 December 2017</b>	<b>78,925</b>	<b>12,270</b>	<b>63</b>	<b>91,258</b>
<b>Accumulated depreciation</b>				
At 1 January 2016	(5,831)	(6,799)	(59)	(12,689)
Charge for the year	(1,664)	(709)	(1)	(2,374)
Adjustment due to revaluation	1,664	-	-	1,664
Exchange adjustments	567	236	2	805
Disposals	302	-	-	302
<b>At 31 December 2016</b>	<b>(4,962)</b>	<b>(7,272)</b>	<b>(58)</b>	<b>(12,292)</b>
Charge for the year	(1,757)	(612)	(1)	(2,370)
Adjustment due to revaluation	1,738	-	-	1,738
Exchange adjustments	(934)	(410)	(2)	(1,346)
Disposals	5	-	-	5
<b>At 31 December 2017</b>	<b>(5,910)</b>	<b>(8,294)</b>	<b>(61)</b>	<b>(14,265)</b>
				-
<b>Net book value at 31 December 2017</b>	<b>73,015</b>	<b>3,976</b>	<b>2</b>	<b>76,993</b>
Net book value at 31 December 2016	68,995	4,303	3	73,301

Hotels Hilton in Warsaw and Golden Tulip in Bucharest constitute the majority of the total property, plant and equipment balance as of 31 December 2017 and 2016. Hotels were valued as at 31 December 2017 by Jones Lang LaSalle Sp. z o.o., Chartered Surveyors, acting in the capacity of External Valuers. All properties were valued on the basis of Market Value and the valuations were carried out in accordance with the RICS Appraisal and Valuation Standards. The results of valuation:

- revaluation adjustments, net of applicable deferred taxes, have been taken to the revaluation reserve in shareholders' equity (page 43),
- impairment adjustments have been taken to other operating expenses/ reversal of impairment adjustments have been taken to other operating income (note 5).

The fair value of hotels is level 3 recurring fair value measurement. A reconciliation of the opening and closing fair value balance is provided below:

	31 December 2017 €'000	31 December 2016 €'000
Opening balance (level 3 recurring fair values)	72,000	74,200
Additions at cost	344	58
Disposals	-	-
Profit included in other comprehensive income	1,442	2,353
Profit included in other operating income	296	275
Depreciation charge for the year	(2,349)	(2,362)
Exchange adjustments	3,867	(2,524)
<b>Closing balance (level 3 recurring fair values)</b>	<b>75,600</b>	<b>72,000</b>

# ATLAS ESTATES LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

The valuation techniques and significant unobservable inputs used in determining the fair value measurement as well as the inter-relationship between key unobservable inputs and fair value, are set out in the table below:

Valuation Techniques used	Significant unobservable inputs	Inter-relationship between key unobservable inputs and fair value
Income approach  The valuation has been undertaken using DCF valuation methodology.	Exit Capitalisation Rate (6.75% - 8.5%)  Discount Rate (9.65%- 11.7%)	The higher the exit capitalisation and discounts rates the lower the fair value.

Fair value measurements are based on highest and best use, which does not differ from their actual use.

The Group has pledged property, plant and equipment of €75.6 million (31 December 2016: €72.0 million) to secure certain banking facilities granted to subsidiaries. Borrowings for the value of €50.0 million (31 December 2016: €49.5 million) are secured on these properties (note 23).

If buildings were stated on the historical cost basis, the amounts would be as follows:

	31 December 2017 €'000	31 December 2016 €'000
Cost	80,899	75,629
Accumulated depreciation	(19,134)	(16,443)
<b>At 31 December</b>	<b>61,765</b>	<b>59,186</b>

### 16. Investment property

	31 December 2017 €'000	31 December 2016 €'000
At beginning of the year	91,918	94,121
Disposal of subsidiary (note 32)	-	(3,582)
Disposal of property	-	(612)
Capitalised subsequent expenditure	856	1,224
Exchange movements	4,163	(2,547)
PV of annual perpetual usufruct fees	(2)	(3)
Fair value (losses)/ gains	(4,748)	3,317
<b>At the end of the year</b>	<b>92,187</b>	<b>91,918</b>

The fair value of the Group's investment properties at 31 December 2017 has been arrived at on the basis of a valuation carried out at that date:

- for the properties located in Poland and Romania by Jones Lang LaSalle Sp. z o.o. external independent qualified valuer with recent experience valuing the properties in the location held by the Group;
- for the properties located in Hungary by FHB Ingatlan Zrt external independent qualified valuer with recent experience valuing the properties in the location held by the Group.

All properties were valued on the basis of Market Value and the valuations were carried out in accordance with the RICS Appraisal and Valuation Standards. The fair value of the investment property has not been adjusted for the purposes of financial reporting.

The fair value of investment property is categorised as a level 3 recurring fair value measurement. A reconciliation of the opening and closing fair value balance is provided below:

	31 December 2017 €'000	31 December 2016 €'000
Opening balance (level 3 recurring fair values)	91,918	94,121
Purchases	856	1,224
Disposals- other	(2)	(4,197)
Unrealized change in fair value	(4,748)	3,317
Unrealized foreign exchange movements	4,163	(2,547)
<b>Closing balance (level 3 recurring fair values)</b>	<b>92,187</b>	<b>91,918</b>

# ATLAS ESTATES LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

The Market Comparison Method has been used to obtain an initial value for Romanian investment properties. The values were determined directly by reference to observable asking prices and recent realised arm's length transactions. However, these initial valuations have been modified through changes in the assumed orderly sale period between willing participants in order to establish the fair value under current market conditions, resulting in a decrease in valuation of 60% (in 2016: 60%-80%).

The recorded valuations are based on assumed orderly sale periods of 6 months as per the prior year, rather than 18 months as per the previous valuations, and takes into account the following factors:

- limited development financing available in Romania,
- limited numbers of investors prepared to invest in Romania assets,
- developers in Romania reducing their pipeline of scheduled projects and looking to existing planned projects rather than to acquiring new projects,
- active investors taking an opportunistic approach to acquire properties under distressed situations.

There remains a risk that eventual disposal prices of these properties could differ significantly from those included in the financial statements.

The valuation techniques and significant unobservable inputs used in determining the fair value measurement of investment property, as well as the inter-relationship between key unobservable inputs and fair value, is detailed in the table below.

Valuation Techniques used	Significant unobservable inputs	Inter-relationship between key unobservable inputs and fair value
<p>Income approach (Total value of properties at 31 December 2017: €72.2 million)</p> <p>Fair value is determined by applying the income approach based on the estimated rental value of the property.</p>	<p>Discount Rate (7.75% - 9.75%)</p> <p>Exit Yield (7.25% - 9.5%)</p> <p>Letting voids on vacant spaces (9-12 months)</p> <p>Rent - individually estimated per each property/type of leasable unit (€11/m<sup>2</sup> - €35/m<sup>2</sup>)</p>	<p>The higher the exit yield and discounts rates the lower the fair value.</p> <p>The higher the office rent the higher the fair value.</p>
<p>Comparable approach (Total value of properties at 31 December 2017: €17.9 million)</p> <p>The valuation technique that uses prices and other relevant information generated by market transactions involving comparable (i.e. similar) assets, adjusted for several factors to ensure comparability of the transactions.</p>	<p>The following adjusting factors were adopted:</p> <ul style="list-style-type: none"> <li>✓ Size (10% - 20%)</li> <li>✓ Development situation (10%)</li> <li>✓ Negotiation discount (10%)</li> </ul>	<p>The higher/ the lower the adjusting factor the higher/ the lower the fair value.</p>

There were no changes to the valuation techniques of level 3 fair value measurements in the year ended 31 December 2017.

The fair value measurement is based on the above items highest and best use, which does not significantly differ from their actual use.

The Group has pledged investment property of €81.3 million (2016: €82.0 million) to secure certain banking facilities granted to subsidiaries.

The property rental income earned by the Group from its investment property, all of which is leased out under operating leases, amounted to €10.3 million (2016: €10.6 million). Direct operating expenses, including repairs and maintenance, arising from investment property that generated rental income amounted to €4.5 million (2016: €5.5 million).

# ATLAS ESTATES LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 17. Operating lease receivables – where the Group is a lessor

The Group leases its investment property under non-cancellable operating lease agreements. The leases have varying terms, escalation clauses and renewal rights.

The future aggregate minimum lease receipts under non-cancellable operating leases are as follows:

	31 December 2017	31 December 2016
	€'000	€'000
No later than one year	7,651	7,795
Later than one year and no later than 5 years	19,086	15,863
Later than 5 years	3,991	6,190
<b>Total</b>	<b>30,728</b>	<b>29,848</b>

### 18. Inventories

	31 December 2017	31 December 2016
	€'000	€'000
Land held for development	5,285	11,019
Construction expenditures	352	5,177
Completed properties	12,803	2,125
Hotel inventory	1,185	1,172
<b>As at 31 December</b>	<b>19,625</b>	<b>19,493</b>

€6.4 million (2016: €1.9 million) of inventories were released to cost of operations in the income statement during the year. In 2017 €1.0 million (2016: €0.3 million) was recognised in the income statement in relation to reversal of impairment on inventories and €nil million was recognised in the income statement in relation to impairment on inventories (2016: €0.1 million). The stock which is held at fair value less cost to sell amounts to €0.5 million as of 31 December 2017 (2016: €4.6 million).

Bank borrowings are secured on inventory for the value of €nil million (2016: €7.4 million) (note 23).

For the year ended 31 December 2017 borrowing costs of €65 thousand (31 December 2016: €26 thousand) that are directly attributable to the construction of qualifying assets are capitalised as part of the cost of inventory until they are substantially ready for use or sale.

### 19. Trade and other receivables

	31 December 2017	31 December 2016
	€'000	€'000
<i>Amounts falling due within one year:</i>		
Trade receivables	2,625	3,085
Less: provision for impairment of receivables	(1,307)	(1,307)
<b>Trade receivables – net</b>	<b>1,318</b>	<b>1,778</b>
Other receivables	1,658	1,437
Prepayments and accrued income	392	692
<b>At 31 December</b>	<b>3,368</b>	<b>3,907</b>

All trade and other receivables are financial assets, with the exception of prepayments and accrued income.

# ATLAS ESTATES LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

The book values of trade and other receivables are considered to be approximately equal to their fair value. As at 31 December 2017, current trade receivables of €1.3 million (2016: €1.3 million) were impaired. Bad debts of €0.3 million as at 31 December 2017 (2016: €0.3 million) were written off. The ageing of the impaired receivables is as follows:

	31 December 2017	31 December 2016
	€'000	€'000
0 to 3 months	-	-
3 to 6 months	-	-
Over 6 months	(1,307)	(1,307)
<b>At 31 December</b>	<b>(1,307)</b>	<b>(1,307)</b>

As of 31 December 2017, current trade receivables of €0.6 million (2016: €0.7 million) were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default.

The carrying amounts of current trade and other receivables are denominated in the following currencies:

	31 December 2017	31 December 2016
	€'000	€'000
Euro	113	121
Polish Zloty	2,870	2,974
Hungarian Forint	206	550
Romanian Lei	163	210
Other currencies	16	52
<b>At 31 December</b>	<b>3,368</b>	<b>3,907</b>

Movements on the provisions for impairment of trade receivables are as follows:

	31 December 2017	31 December 2016
	€'000	€'000
At beginning of year	(1,307)	(1,502)
Provision for impairment of trade receivables	(39)	-
Trade receivables written off during the year as uncollectible	-	292
Reversal of unused provision	-	-
Exchange adjustments	39	(97)
<b>At end of year</b>	<b>(1,307)</b>	<b>(1,307)</b>

The other classes within trade and other receivables do not contain impaired assets.

The maximum amount of exposure of the Group to credit risk at the balance sheet date approximates the total of net trade and other receivables.

### 20. Assets classified as held for sale and directly associated liabilities

The major classes of assets and liabilities held for sale were as follows:

	31 December 2017	31 December 2016
	€'000	€'000
<b>Assets:</b>		
Investment property	-	-
<b>Assets held within disposal groups classified as held for sale</b>	<b>-</b>	<b>-</b>

# ATLAS ESTATES LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

	31 December 2017	31 December 2016
	€'000	€'000
At beginning of the year	-	4,168
Additions	-	-
Disposals	-	(4,194)
Exchange movements	-	26
Fair value gains/ (losses)	-	-
<b>At the end of the year</b>	<b>-</b>	<b>-</b>

In January 2016 the Group completed a sale of its Hungarian subsidiary, Cap East Kft., previously included in income producing assets.

### 21. Cash and cash equivalents

	31 December 2017	31 December 2016
	€'000	€'000
<b>Cash and cash equivalents</b>		
Cash and cash equivalents	14,164	6,345
Short term bank deposits	842	1,755
<b>At 31 December</b>	<b>15,006</b>	<b>8,100</b>

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short-term deposits are made for varying periods of between one day and one month, depending on the immediate cash requirements of the Group, and earn interest at the respective short-term deposit rates.

Included in cash and cash equivalents is €7.1 million (2016: €4.4 million) restricted cash relating to restricted proceeds, security, customer deposits and loan financing.

### 22. Trade and other payables

	31 December 2017	31 December 2016
	€'000	€'000
<b>Current</b>		
Trade payables	(992)	(2,057)
Other tax and social security	(5,148)	(4,092)
Amounts due to Atlas Management Company Group in respect of management and performance fee (note 28a)	(9,338)	(515)
Other creditors	(80)	(50)
Amounts payable to majority shareholder (note 28e)	(1,950)	(3,500)
Amounts payable to related party (note 28b)	(240)	(150)
Accruals and deferred income	(17,210)	(5,146)
<b>At 31 December</b>	<b>(34,958)</b>	<b>(15,510)</b>
<b>Non-current – other payables</b>		
Other non-current trade and other payables (due in 1-2 years)	(385)	(352)
Other non-current trade and other payables (due in 3-5 years)	(760)	(367)
Other non-current trade and other payables (due after 5 years)	(2,094)	(2,000)
<b>At 31 December</b>	<b>(3,239)</b>	<b>(2,719)</b>
<b>Total trade and other payables</b>	<b>(38,197)</b>	<b>(18,229)</b>

Included in trade and other payables is deferred income related to pre-sales of apartments. As the construction has now been completed, the amounts of cash paid into escrow accounts has now been released to the subsidiary. The value of the deferred income at 31 December 2017 amounts to €13.3 million (2016: €1.4 million) and will be released to the income statement upon signing the notarial deeds.



# ATLAS ESTATES LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 23. Bank loans

	31 December 2017 €'000	31 December 2016 €'000
<b>Current</b>		
<i>Bank loans and overdrafts due within one year or on demand</i>		
Secured	(19,321)	(62,517)
<b>Non-current</b>		
<i>Repayable within two years</i>		
Secured	(2,764)	(5,310)
<i>Repayable within three to five years</i>		
Secured	(30,031)	(11,512)
<i>Repayable after five years</i>		
Secured	(41,386)	(40,982)
	<b>(74,181)</b>	<b>(57,804)</b>
<b>Total</b>	<b>(93,502)</b>	<b>(120,321)</b>

The bank loans are secured on various properties of the Group by way of fixed or floating charges.

The fair value of the fixed and floating rate borrowings approximated their carrying values at the balance sheet date, as the impact of marking to market and discounting is not significant. The fair values are based on cash flows discounted using rates based on equivalent fixed and floating rates as at the end of the year.

The effective interest rates as at the balance sheet date were:

		Euro	Zloty
<b>Bank loans</b>	<b>2017</b>	<b>1.07%-5%</b>	<b>3.63%</b>
Bank loans	2016	1%-4.75%	3.61%-4.66%

Bank loans are denominated in a number of currencies and bear interest based on a variety of interest rates. An analysis of the Group's borrowings by currency:

	Euro €'000	Zloty €'000	Total €'000
<b>Bank loans and overdrafts – 31 December 2017</b>	<b>61,000</b>	<b>32,502</b>	<b>93,502</b>
Bank loans and overdrafts – 31 December 2016	86,733	33,588	120,321

The Group has the following undrawn borrowing facilities:

	31 December 2017 €'000	31 December 2016 €'000
Expiring beyond one year	-	7,445

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## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Loan currency	Basis of interest	In loan currency '000	In EUR €'000	Maturity date	Collateral
Euro	3mth EURIBOR	15,114	15,114	June 2025	Mortgage over the asset together with assignment or pledge of the associated receivables, bank balances, shares and insurance rights
PLN	3mth WIBOR	135,561	32,502	June 2025	Mortgage over the asset together with assignment or pledge of the associated receivables, bank balances, shares and insurance rights
Euro	3mth EURIBOR	22,977	22,977	September 2022	Mortgage over the asset together with assignment or pledge of the associated receivables, bank balances, shares and security assignment;
Euro	1mth EURIBOR	3,938	3,938	May 2021	Mortgage over the asset together with assignment or pledge of the associated receivables, bank balances, shares and insurance rights
Euro	3mth EURIBOR	3,670	3,670	June 2018 (Maturity date extended till June 2021 – as described below in sector “Subsequent events – loan facility extension”)	Mortgage over the asset together with assignment or pledge of the associated receivables, bank balances, shares and insurance rights
Euro	3mth EURIBOR	12,905	12,905	March 2017	Mortgage over the asset together with assignment or pledge of the associated receivables, bank balances and shares
Euro	3mth LIBOR	2,395	2,395	August 2020	Mortgage over the asset together with assignment or pledge of the associated bank balances and insurance rights
<b>Total</b>			<b>93,502</b>		

At the balance sheet date collateral was established for the following financial assets to guarantee repayment of bank liabilities:

	31 December 2017 €'000	31 December 2016 €'000
Trade receivables	1,204	1,615
Cash and cash equivalents	3,282	767
<b>Total carrying amount of financial assets for which collateral was established to guarantee repayment of bank liabilities</b>	<b>4,486</b>	<b>2,382</b>

### Portfolio of cross collateralised banking facilities extended by Erste Group Bank AG

In June 2015 the Group reached a settlement with the bank financing its two projects in Romania (*part of portfolio of cross collateralised banking facilities*) based on which the Group received €22.2m discount on the repayment of the outstanding loan facility. The Group could have been obliged to pay an additional amount to the bank in connection with this transaction upon closing of disposal of *Millennium Plaza*. The additional amount (“Price Adjustment”) was agreed as follows:

- the amount by which net proceeds from the disposal of *Millennium Plaza* exceed the outstanding debt facility at the time of disposal constitute “Excess Disposal Proceeds”;
- the additional amount shall be the sum of:
  - 100% of Excess Disposal Proceeds not exceeding €10.0 million,
  - 50% of Excess Disposal Proceeds exceeding €10.0 million.

# ATLAS ESTATES LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

In November 2015 the Group sold Ligetvaros office building in Hungary (*part of portfolio of cross collateralised banking facilities*) and consequently settled the outstanding loan facility extended to this project.

After the above described repayment of two Romanian and one Hungarian facility, the Group had one facility extended to Atlas Estates Millennium Sp. z o.o. ("Millennium") by Erste Group Bank AG that had been cross collateralized. On 14 September 2016 (at which point this debt amounted to €58.9 million) the Group signed with Erste bank the agreement based on which by 29 September 2017 the bank was obliged to sell/ transfer to Atlas Projects B.V. (subsidiary of Atlas Estates Limited) its outstanding facility due from Millennium at the price of €1 subject mainly to the following conditions:

1) repayment by or on behalf of Millennium and receipt by the bank of principal in the aggregate amount of € 39,500,000 with interests indicated in this agreement in the following four instalments:

- a) € 8,075,000 to be paid by 10 business days after the signing of this agreement - this amount was paid by Millennium in September 2016;
- b) € 3,950,000 by 30 November 2016 - this amount was paid by Millennium in November 2016;
- c) € 3,950,000 by 31 March 2017 - this amount was paid by Millennium in March 2017;
- d) € 23,525,000 by 29 September 2017- this amount was paid by Millennium in September 2017.

2) payment by Atlas Projects B.V. the transfer price in amount of €1 for Millennium outstanding facility of €19.5 million- this transfer price was paid by Atlas Project B.V. in September 2017.

In September 2017- i.e. upon completion of the transfer of this facility to Atlas Project BV:

- Erste bank relinquished all mortgage, lien, charge pledge, promissory note, letter of comfort or other security interest or any other type of guarantee granted by Millennium and/or third party for the benefit of Erste bank to secure the claims of the bank against Millennium. Moreover, upon the completion of this transfer Erste Bank is no longer entitled to the Price Adjustment (defined above).
- Atlas Estates Limited in its consolidated financial statements recorded a finance income of €19.5 million (see note 7) representing bank debt discount resulting from this transaction.

### *New loan – Millennium Plaza*

On 13 September 2017 Millennium signed the new loan agreement with Bank Zachodni WBK S.A. based on which it was able to borrow €23.5 million to repay the final instalment to Erste Bank AG (as described above). As of 31 December 2017 this bank facility amounts to €23.0 million (net of unamortized part of arrangement fee paid) and the final repayment date of this facility is September 2022. In 2017 €0.3 million was repaid in respect of this loan.

### *Repaid Loan - Apartamenty przy Krasieńskiego II*

In February 2016 Atlas Estates (Przasnyska 9) Sp. z o.o. was granted a loan (up to the amount of PLN 42.9 million) for the construction of the second stage of *Apartamenty przy Krasieńskiego* project in Warsaw. The first draw down of the loan took place in the third quarter of 2016. €2.2 million loan was fully repaid in August 2017.

### *Hungarian loan*

In the preparation of the consolidated financial statements as of 31 December 2017, the Directors have classified the loan facility extended to a Hungarian subsidiary totalling €12.9 million as current since it is overdue. In 2017 €0.7 million was repaid in respect of this loan. The Group is in discussion with the bank regarding restructuring of this loan.

### *Other loans- partial repayments*

In 2017 the Group paid €2.1 million in respect of scheduled partial repayments of other loans extended to the Group's projects (*Hilton* and *Golden Tulip* hotels, *Sadowa* and *Properpol* office buildings).

### *Subsequent events- loan facility extension*

On 25 January 2018 Properpol Sp. z o.o. (the Company's subsidiary) signed amendment agreement with mBank S.A. to the facility agreement dated 2 September 2013 based on which final repayment date of the facility was extended from 30 June 2018 to 30 June 2021. As of 31 December 2017 this facility amounted to €3.7 million and is used for financing *Galeria Platinum Towers* project.

# ATLAS ESTATES LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*Subsequent events- amount increase of the existing loan facility*

On 7 February 2018 the Company's subsidiaries: Mantezja 3 Sp. z o.o. and HGC Gretna Investments Sp. z o.o. Sp. j., which operate *Hilton* hotel in Warsaw concluded an annex with Bank Pekao S.A. and PEKAO Bank Hipoteczny S.A. to the existing loan facility agreement dated 29 June 2015 based on which the total outstanding amount of the facility was increased. The subsidiaries are allowed to borrow new funds up to the amount of €3.5 million for financing *Hilton* expenses or other Atlas projects. As of 31 December 2017 this facility amounted to €47.6 million. The existing collaterals were increased accordingly.

### 24. Derivative financial instruments

#### Derivative financial assets

	31 December 2017 €'000	31 December 2016 €'000
Forward contract	-	-

As of 31 December 2016 in the above described agreement (note 23) concluded by the Group with Erste bank on 14 September 2016 the Company identified embedded financial instrument (forward contract) resulting from Atlas Project BV obligation to purchase a financial instrument (bank loan of €19.4 million nominal value) at the fixed price of €1. The Company estimated that the fair value of this instrument both at the inception and 31 December 2016 equalled €nil (level 3 recurring fair values). As of 31 December 2017 no derivative financial assets were identified.

#### Derivative financial liabilities

	31 December 2017 €'000	31 December 2016 €'000
<i>Derivatives not designated as hedging instruments:</i>		
- Interest rate swap	(625)	(690)
Total financial instruments classified as held for trading	(625)	(690)
<i>Less non-current portion:</i>		
- Interest rate swap	-	-
<b>Current portion</b>	<b>(625)</b>	<b>(690)</b>

The fair value of the Group's interest rate derivatives is based on broker quotes (level 2 recurring fair values).

### 25. Deferred tax

Deferred tax is calculated in full on temporary differences under the liability method using tax rates applicable to each individual territory.

The movement on the deferred tax account is as shown below:

	31 December 2017 €'000	31 December 2016 €'000
At beginning of the year	(402)	299
Disposals	-	145
Credited to income statement	(72)	(522)
Credited to other comprehensive income	(674)	(286)
Exchange differences	38	(38)
<b>At 31 December</b>	<b>(1,110)</b>	<b>(402)</b>

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The movements in deferred tax assets and liabilities during the year are shown below.

Deferred tax liabilities – non-current	Accelerated tax depreciation and other	Revaluation and fair value adjustments	Total
	€'000	€'000	€'000
At 1 January 2016	(5,863)	(1,396)	(7,259)
Profit and loss (charge)/ credit	(1,861)	(465)	(2,326)
Credited to other comprehensive income	-	(2)	(2)
Disposals	292	5	297
Exchange differences	200	49	249
<b>At 31 December 2016</b>	<b>(7,232)</b>	<b>(1,809)</b>	<b>(9,041)</b>
Profit and loss (charge)/ credit	(502)	(1,044)	(1,546)
Charged to other comprehensive income	-	(411)	(411)
Disposals	-	-	-
Exchange differences	(434)	(73)	(507)
<b>At 31 December 2017</b>	<b>(8,168)</b>	<b>(3,337)</b>	<b>(11,505)</b>

Deferred tax assets – non-current	Tax losses	Revaluation and fair value adjustments	Other	Total
	€'000	€'000	€'000	€'000
At 1 January 2016	811	5,719	1,028	7,558
Profit and loss (charge)/ credit	(193)	982	1,015	1,804
Charged to other comprehensive income	-	(284)	-	(284)
Disposals	(48)	(104)	-	(152)
Exchange differences	(15)	(215)	(57)	(287)
<b>At 31 December 2016</b>	<b>555</b>	<b>6,098</b>	<b>1,986</b>	<b>8,639</b>
Profit and loss (charge)/ credit	(95)	1,290	279	1,474
Credited to other comprehensive income	-	(263)	-	(263)
Disposals	-	-	-	-
Exchange differences	26	392	127	545
<b>At 31 December 2017</b>	<b>486</b>	<b>7,517</b>	<b>2,392</b>	<b>10,395</b>

The deferred income tax credited/ (charged) to other comprehensive income during the year is as follows:

	31 December 2017	31 December 2016
	€'000	€'000
Fair value reserves in shareholders' equity		
Revaluation of property, plant and equipment	(274)	(447)
Exchange movements offset in reserves	(400)	161
	<b>(674)</b>	<b>(286)</b>

No deferred tax is recognised on the unremitted earnings of overseas subsidiaries and joint ventures due to the parent company's tax status.

Deferred tax assets and liabilities are offset when the Group has a legally enforceable right to offset current tax assets and liabilities and the deferred tax assets and liabilities relate to taxes levied by the same tax authority on either the same taxable Group company; or different Group entities which intend either to settle current tax assets and liabilities on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax assets or liabilities are expected to be settled or recovered.

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### 26. Share capital account

	Number of shares	Ordinary shares - share capital account €'000	Total €'000
<b>Authorised</b>			
Ordinary shares of €0.01 each	100,000,000	1,000	1,000
<b>Issued and fully paid</b>			
As at 31 December 2016 and 2017	46,852,014	6,268	6,268

During 2007, 3,470,000 ordinary shares of €0.01 each with aggregate nominal value of €34,700 were purchased and held in Treasury.

### 27. Acquisition and disposals of subsidiary undertakings and investments in joint ventures

#### 27.1 Acquisitions of non-controlling interest during the year ended 31 December 2017

No acquisitions of non-controlling interest took place during the year ended 31 December 2017.

#### 27.2 Disposals of subsidiary undertakings and interests in joint ventures during the year ended 31 December 2017

No disposals of subsidiary undertakings and interests in joint ventures took place during the year 2017.

#### 27.3 Acquisitions of non-controlling interest during the year ended 31 December 2016.

No acquisitions of non-controlling interest took place during the year ended 31 December 2016.

#### 27.4 Disposals of subsidiary undertakings and interests in joint ventures during the year ended 31 December 2016

No disposals of subsidiary undertakings and interests in joint ventures took place during the year 2016 except for the sale of one Hungarian subsidiary as presented in note 32.

### 28. Related party transactions

#### (a) Key management compensation

	31 December 2017 €'000	31 December 2016 €'000
Fees for non-executive Directors	62	66

The Company has appointed AMC, a company under common control, to manage its property portfolio. In consideration of the services provided, AMC charged a management fee of €1.6 million for the year ended 31 December 2017 (2016: €1.6 million). Under the agreement, AMC is also entitled to a performance fee based on the increase in value of the properties over the year. The Company has accrued a performance fee of €8.6 million for the year ended 31 December 2017. For the year ended 31 December 2016 performance fee amounted €nil million.

On 15 July 2013 AMC Poland entered into an agreement with the Company's subsidiary – Capital Art Apartments Sp. z o.o. SKA. Based on this agreement AMC Poland administers the sale process of Capital Art Apartments stage III. In 2017 AMC Poland received a fee of €nil thousand in relation to this agreement (2016: €19.7 thousand).

As of 31 December 2017, €9.3 million included in current trade and other payables was due to AMC (2016: €0.5 million). In 2017 cash of €1.4 million was paid to AMC in respect of the fees (in 2016 €5.6 million).

#### (b) On 22 November 2012, the Group acquired 24% interest in the voting shares of Zielono Sp. z o.o., increasing its interests to 100%. As of 31 December 2017 €240 thousand is estimated as amount payable to Coralcliff Limited - former non-controlling shareholder of Zielono Sp. z o.o. (31 December 2016: €150 thousand). No amounts were paid in 2017 (2016: €nil thousand).

#### (c) In 2017 Mr Reuven Havar, former Chief Executive Officer of AMC, and his relatives signed preliminary contracts for three apartments in Apartamenty przy Krasińskiego II at total value €320 thousand.

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As of 31 December 2017 the amount was fully settled. In 2016 he acquired one apartment in *Capital Art Apartments III & IV* project in Warsaw for the price of €99.0 thousand. As of 31 December 2016 and 31 December 2017 these amounts were fully settled.

- (d) In 2017 Mr Ziv Zviel, the Chief Finance Officer and Chief Operations Officer of AMC, signed preliminary contract for apartment in Apartamenty przy Krasińskiego II at total value of €44thousand. As of 31 December 2017 the outstanding balance is €32 thousand.

In 2016 he acquired one apartment in *Capital Art Apartments III & IV* project in Warsaw for the price of €65.2 thousand. As of 31 December 2016 and 31 December 2017 these amounts were fully settled.

- (e) In November 2016 Atlas Estates Limited (“AEL”) received a loan from its majority shareholder Fragiolig Holdings Limited (“Fragiolig”) amounting to €3.5 million. The loan repayment date was 30 January 2017 however in it was subsequently extended to 30 May 2018. In March 2017 AEL received an additional €3.75 million and as a result the loan amount was increased to €7.25 million. In September and November 2017 AEL executed several repayments totalling €5.3 million therefore as of 31 December 2017 the loan balance amounted to €1.95 million. The loan bears no interest until the repayment date.

Moreover on 31 January 2017 AEL concluded an option agreement with Fragiolig based on which AEL granted to Fragiolig an option to acquire (through AEL’s subsidiaries) whole or part of the partnership interest in the partnership in its indirect subsidiary- HPO AEP Sp. z o.o. Sp. j. with its seat in Warsaw (“HPO”). As of 31 December 2017, the option had an expiry date of 28 February 2018. This expiry date was extended until 30 May 2018 on 27 February 2018. Upon execution of the option by Fragiolig, AEL would sell the whole or part of partnership interest in HPO for the price determined in a valuation conducted by an evaluation firm appointed by AEL in consultation with Fragiolig.

- (f) The ultimate parent company is RIG Investments Sarl and the ultimate controlling party by a virtue of ownership is Mr Ron Izaki.

### 29. Post balance sheet events

There are no significant post balance sheet events that require disclosure except for events described in note 23 and 28 e.

### 30. Significant Agreements

Significant financing agreements are described in note 23 and on pages 10 and 11.

### 31. Other items

#### 31.1 Information about court proceedings

The Company is not aware of any proceedings instigated before a court, a competent arbitration body or a public administration authority concerning liabilities or receivables of the Company, or its subsidiaries, whose joint value constitutes at least 10% the Company’s net equity, except for legal proceeding against:

Atlas Estates Limited and Atlas Estates Investment B.V.

Atlas Estates Limited (“AEL”) was notified on 9 March 2011 that Stronginfo Consultants Ltd and Columbia Enterprises Ltd (the “Plaintiffs”) have submitted to an arbitrator a statement of claim against Atlas Estates Investment B.V. (“AEI B.V.”) with its seat in Amsterdam, the subsidiary of AEL as the primary debtor and AEL itself as the guarantor (the “Defendants”) asking arbitrator to order the Defendants to provide a full and accurate accounting basis for the calculation of the Completion Consideration as defined in the agreement dated May 8, 2006 (“Agreement”) on transfer of shares from the Plaintiffs to Atlas Estates Investment B.V. and demanding payments of Completion Consideration which in the absence of any actual accounting yet was estimated by the Plaintiffs of total PLN55 million.

On 18 February 2016 AEL and AEI B.V. entered into the settlement agreement with Stronginfo Consultants Ltd and Columbia Enterprises Ltd (“Settlement”). The purpose of the Settlement was to specify the exact amount of the payment to be made by AEL and AEI B.V. to Stronginfo Consultants Ltd and Columbia Enterprises Ltd. The Settlement substitutes decision of the Arbitrator in Israel of 10 December 2015 (described in previous financial statements). According to the provisions of the Settlement AEL and AEI B.V. obliged themselves to pay to the Plaintiffs the total amount of 10,437,475 Israeli shekels (equivalent of approx. €2.5 million). Payment of the above amount exhaust above mentioned claims of Stronginfo Consultants Ltd and Columbia Enterprises Ltd.

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As of 31 December 2016 all amounts due were paid in accordance with the settlement agreement.

There are no other material legal cases or disputes that are considered material to the consolidated financial information that would either require disclosure or provision within the financial information.

### 31.2 Financial forecasts

No financial forecasts have been published by the Company in relation to the year ended 31 December 2017.

### 31.3 Guarantees and sureties

This information is presented in Directors' Report on pages 22 to 24.

### 31.4 Capital commitments

This information is presented in Directors' Report on page 22.

## 32. Principal subsidiary companies and joint ventures

In 2016 Atlas completed sale of Hungarian subsidiary – Cap East Kft. (owner of the project Metropol). The Group realized €1.8 million in net proceeds.

In April 2016 Atlas was obliged to refund part of the price received in amount of €0.1 million in relation with the sale of Ligetvaros and Varosliget, which was completed in 2015.

The result of these operations was determined as follows:

	<b>31 December 2016</b>
	<b>€'000</b>
<b>Consideration received net of cash disposed</b>	<b>1,389</b>
Cash consideration refund (Ligetvaros&Varosliget)	(100)
Cash consideration received (Cap East)	1,816
Cash disposed of	(327)
<b>Net assets disposed of (other than cash):</b>	<b>1,474</b>
Deferred tax asset	152
Investment properties	3,582
Trade and other receivables	57
Trade and other payables	(309)
Bank loans	(1,711)
Deferred tax liabilities	(297)

The table below lists the current operating companies of the Group. In addition, the Group owns other entities which have no operating activities. All Group companies are consolidated except for a Polish subsidiary, Atlas Estates (Kokoszki) Sp. z o.o. which is under bank enforcement proceedings. Deconsolidation of this subsidiary started on 24 December 2014, i.e. from the moment when Group control was lost.

No new subsidiary undertakings were acquired and no significant investments were made in any additional joint ventures during the period ended 31 December 2017 and 2016.

<b>Country of incorporation</b>	<b>Name of subsidiary/ joint venture entity</b>	<b>Status</b>	<b>Percentage of nominal value of issued shares and voting rights held by the Company</b>
Holland	Atlas Estates Cooperatief U.A.	Holding	100%
Holland	Atlas Estates Investment B.V.	Holding	100%
Holland	Atlas Projects B.V.	Holding	100%
Holland	Atlas Residential BV	Holding	100%
Holland	Atlas HPO BV	Holding	100%
Guernsey	Atlas Finance (Guernsey) Limited	Holding	100%
Curacao	Atlas Estates Antilles B.V.	Holding	100%
Cyprus	Fernwood Limited	Holding	100%



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Country of incorporation	Name of subsidiary/ joint venture entity	Status	Percentage of nominal value of issued shares and voting rights held by the Company
Poland	AEP Sp. z o.o.	Management	100%
Poland	AEP Sp. z o.o. 2 SKA	Holding	100%
Poland	AEP Sp. z o.o. 3 SKA	Holding	100%
Poland	Platinum Towers AEP Sp. z o.o. SKA	Development	100%
Poland	Zielono AEP Sp. z o.o. SKA	Development	100%
Poland	Properpol Sp. z o.o.	Investment	100%
Poland	Atlas Estates (Millennium) Sp. z o.o.	Investment	100%
Poland	Atlas Estates (Sadowa) Sp. z o.o.	Investment	100%
Poland	Capital Art Apartments AEP Sp. z o.o. Sp. j.	Development	100%
Poland	HGC Gretna Investments Sp. z o.o. Sp. j.	Hotel operation	100%
Poland	Mantezja 3 Sp. z o.o.	Hotel operation	100%
Poland	HPO AEP Sp. z o.o. Sp. j.	Development	100%
Poland	Atlas Estates (Cybernetyki) Sp. z o.o.	Development	50%
Poland	Le Marin Sp. z o.o.	Development	100%
Poland	Atlas Estates (Przasnyska 9) Sp. z o.o.	Development	100%
Poland	La Brea Management Sp. z o.o.	Development	100%
Poland	CAA Finance Sp. z o.o.	Development	100%
Poland	Gretna Investments Sp. z o.o.	Holding	100%
Poland	Gretna Investments Sp. z o.o. 4 SKA	Holding	100%
Hungary	CI-2005 Investment Kft.	Development	100%
Hungary	Felikon Kft.	Investment	100%
Hungary	Atlas Estates (Moszkva) Kft.	Investment	100%
Romania	World Real Estate SRL	Investment	100%
Romania	Atlas Solaris SRL	Development	100%
Romania	D.N.B. - Victoria Towers SRL	Hotel operation	100%
Bulgaria	Immobul EOOD	Investment	100%
Luxembourg	Gretna SCSP	Holding	100%
Luxembourg	Residential SCSP	Holding	100%
Luxembourg	Gretna Projects Sarl	Holding	100%
Luxembourg	HPO SCSP	Holding	100%
Luxembourg	Residential Projects Sarl	Holding	100%