



## ANNUAL REPORT AND ACCOUNTS 2018

**SUMMIT**  
Properties Ltd

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## **Summit Properties Ltd.**

### **2018 Full Year Results**

We are pleased to present the audited results for the year ended 31 December 2018 ("the Reporting Period") of Summit Properties Ltd. and its subsidiaries ("the Group").

#### **Profits**

- Net profit up by 156% to €289.6 million (FY 2017: €113.0 million)
- Earnings Per Share (EPS) up 162% to 56.6 cents (FY 2017: 21.6 cents)
- Profit Before Tax (PBT) of €334.2 million (FY 2017: €128.7 million)
- EBITDA up 136.6% to €345.4 million (FY 2017: €146.0 million) of which Revaluation Profit is €296.8 million (FY 2017: €88.0 million)

#### **NAV**

- EPRA NAV of €866.0 million increased by 51.2% compared with €572.9 million in 2017
- EPRA NAV per share of €1.89 (FY 2017: €1.23)
- Group NAV increased 46.6% to €782.0 million (FY 2017: €533.3 million)
- NAV per share of €1.71 (FY 2017: €1.15)
- Total Assets of €1.6 billion (FY 2017: €1.1 billion)

#### **Rent and operations**

- Rental income increased by 11.4% to €67.4 million (FY 2017: €60.5 million)
- Annualised net rent of €81.3 million, equivalent to 5.4% rental yield
- Funds From Operations (FFO) up 21.4% to €44.3 million (FY 2017: €36.5 million)
- Average rent per sqm per month of €7.0 across the portfolio is lower than ERV
- 92% occupancy over the portfolio's majority (90% including properties for re-development)
- New leases and renewals for approximately 163,000 sqm, securing rental income of ca. €13 million p.a.

#### **Portfolio**

- Portfolio of 103 properties with a Net Market Value (NMV) of €1.5 billion (FY 2017: 84 properties at €938.7 million NMV)
- Acquisition of controlling stake in Frankfurt-listed real estate company, including:
  - €167 million office portfolio of 12 properties located in German major cities
  - Total lettable area of 106,700 sqm, 89% let
  - Rent of approximately €10.8 million p.a.
- €85 million portfolio acquisition of eight multi service centres in major cities in Germany; 58,000 sqm of fully let properties with net rent of approximately €5.8 million p.a.
- Acquisition of additional 9.1% of minority shares of Deutsche Real Estate AG, resulting in total holdings of 89.9% as of the end of the Reporting Period
- Disposal of a non-strategic property for €3.5 million
- Further progress on the residential development projects; 54 apartments sold (ca. 90%); €2.5 million profit recognised in 2018.

## Financing

- €300 million placement of senior fixed rate notes at 2.00% p.a. for seven-year term.
- Refinancing €232 million of medium term existing secured debt facilities using bond proceeds:
  - Repayment of ca. €220 million of debt facilities bearing average 3.62% interest p.a.;
  - Acquisition of €12.2 million of existing debt bearing 3.7% interest p.a.;
- €27 million refinancing of short term debt facilities post Reporting Period. New loan is for 20-year term at fixed interest rate of 2.70% p.a. and annual amortisation of 3.00%
- Following refinancing activities, the average duration of the Group facilities extended from 6.0 to 6.8 years with an average interest rate of 2.2% p.a.

## Equity and dividend

- Total dividend distributions of €14.0 million were paid in 2018, reflecting 3.00 cents per share.
- €9.5 million share Buy-back shortly before Reporting Period end, representing 8.1 million shares at €1.17 each.

**Harry Hyman, Chairman, commented:** “2018 was another strong year where intensive asset management ratcheted up returns from the existing portfolio, supported by two major acquisitions and major improvements to the terms of debt facilities. The performance of the portfolio in combination with our skilled asset management enabled us to achieve significant portfolio growth and we intend to continue to carefully review further transactions to maintain this growth momentum over the medium term, while also returning capital to our shareholders”.

**Zohar Levy, Managing Director, commented:** “Growth in key portfolio performance and valuation measures reflects our team’s ability to identify and implement strategies which enhance asset quality, rental values and asset level returns. We acquired €252 million of new properties, improved our debt structure considerably and made significant progress in the development of existing surplus building rights to unlock further inherent value of the portfolio. The German real estate market remains very attractive and our under-rented portfolio contains multiple opportunities for intensive asset management driven improvements over the next few years. We fully intend to continue and capitalise upon these and optimise our portfolio to drive substantial shareholder returns”.





Trebbinerstraße 36, Potsdam

# Chairman's and Managing Director's Report

## Chairman's and Managing Director's Report

We are pleased to present the results for the financial year ended 31 December 2018.

In 2018 we continued to build the scale and underlying performance of our investment portfolio via intensive management of existing assets, new acquisitions and debt refinancing. As part of this was completed towards the end of the period, the full benefit will be visible in future periods.

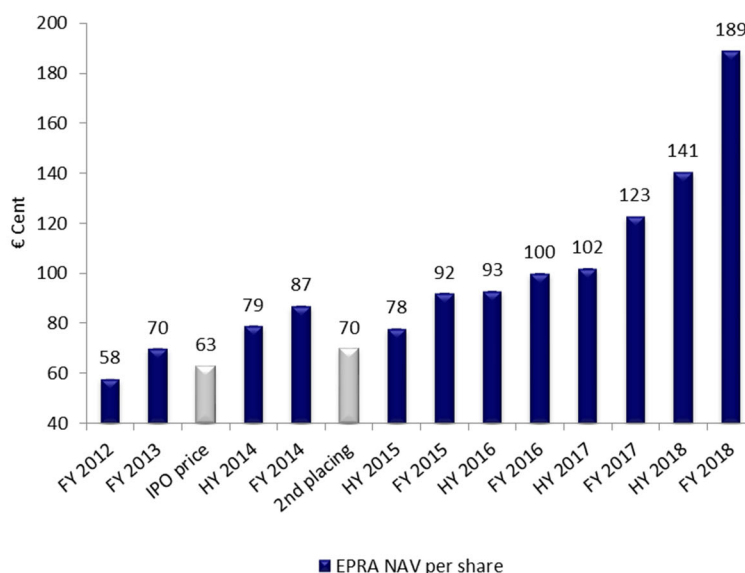
The year was notably characterised by two acquisitions, which secured an additional €252 million of quality, well-let commercial real estate located predominantly in our existing target locations. These are a mix of fully-let properties secured on medium-term leases at attractive initial yields, which add to the potential growth in rental income. We believe that such assets constitute an attractive pipeline of development and refurbishment opportunities, which is likely to respond to the Group's core skill-set of active asset management.

We also continued to improve the terms of outstanding debt, both existing borrowing and new facilities brought onto our balance sheet as a result of acquisitions. This was achieved via the proceeds of a €300 million bond issue completed in January 2018 and the arrangement of a new €29 million long-term fixed rate debt facility post Reporting Period. Our improved debt structure provides a stable base for us to implement our strategy to enhance the quality of the enlarged portfolio and secure further additions, where appropriate.

We intend to maintain an approach which has served us well over the last few years. However, a review of our medium-term investment strategy steered us towards a broader geographical investment approach, which may in future encompass continental Europe and other real estate markets as well. This was part of the rationale for the decision to change the company's name to Summit Properties Limited, as announced in February 2019.

### EPRA NAV growth and valuation

EPRA NAV increased by 51.0% to €866.0 million as at 31 December 2018 (FY 2017: €572.9 million) equivalent to €1.89 per share (FY 2017: €1.23). The Group's NAV increased 46.6% to €782.0 million (FY 2017: €533.3 million).



The key component of the EPRA NAV increase was the €296.8 million revaluation profit supplemented by a FFO contribution of €44.3 million. Set against those enhancements were €26.2 million in respect of non-controlling interests and €14.0 million of dividend distributions. Finally, €9.5 million was returned to shareholders via a share buyback.

As of the end of the Reporting Period, the Group's portfolio consisted of 103 properties with a NMV of €1.5 billion (FY 2017: 84 properties at NMV of €938.7 million), based on an external valuation as of 2018.

The material growth in NMV during the Reporting Period included €252 million of new acquisitions as well as investment in existing assets. This balance was then arose from the external year-end valuations, which reconfirmed the quality of our Group portfolio.

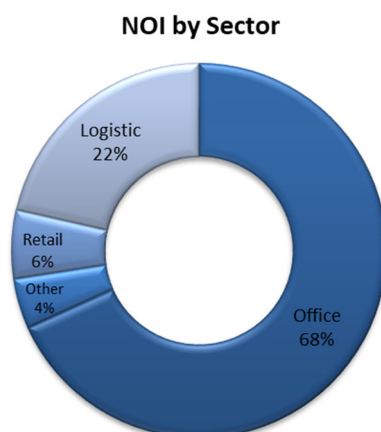
The external valuations recognised the value of recent investment in the portfolio, as well as improvements to leases, occupancy and rental income as a result of ongoing intensive asset management. This was supported by the booming German real estate market, driven by the strong demand and a limited supply of German office and logistics properties, which may continue to push rental values up until demand is satisfied.

## Financial Review

The results for the financial year ended 31 December 2018 reflect the first full-year of acquisitions completed during 2017 as well as the initial contributions from acquisitions completed during the second half of 2018. Intensive asset management remains the Group's core strategy and is reflected in encouraging levels of new lettings, increase in rent rate levels and lease renewals during the period. These underpinned the portfolio's stable rental performance.

An 11.4% increase in rental income to €67.4 million (2017: €60.5 million) was mainly attributable to initial contributions from the GxP and Multi acquisitions completed during the last quarter of 2018, and the full year contribution of the Wolfsburg portfolio acquired in June 2017. On an underlying, like-for-like basis, rental income increased by 2.8%.

Net Operating Income ("NOI") was at €64.8 million (FY 2017: €55.8 million) and was generated by all portfolio sectors. It included €2.8 million of profit, which was recognised in the last quarter of 2018, in respect of the sale of apartments in one of the residential development projects in Frankfurt. Total gross revenue from this source was €9.9 million and associated construction costs were €7.1 million.



FFO was 21.4% above the prior year at €44.3 million (2017: €36.5 million). On a like-for-like basis, FFO increased by 8.0%. FFO per share amounted to 9.5 cents (FY 2017: 7.8 cents).

FFO (€m)	FY 2018	FY 2017
Gross profit	64.8	55.8
G&A expenses	-9.3	-7.8
Interest expenses, net	-11.2	-11.6
<b>FFO</b>	<b>44.3</b>	<b>36.5</b>
Weighted average amount of shares (million)	464.9	465.4
<b>FFO per share (€cent)</b>	<b>9.5</b>	<b>7.8</b>

PBT was substantially ahead of the comparable at €334.2 million (FY 2017: €128.7 million). Apart from the contribution of the FFO, the increase was mainly due to a €296.8 million uplift arising from the revaluation of the investment portfolio (FY17: €88m) as detailed below:

PBT (€m)	FY 2018	FY 2017
Gross profit	64.8	55.8
G&A expenses	-9.3	-7.8
Profit from fair value adjustments of investment properties	296.8	88.0
Financial expenses (net)	-10.7	-10.4
One-off items	-7.5	-7.0
Other (including capital gain on disposal of properties)	-	10.0
<b>Profit Before Taxes</b>	<b>334.2</b>	<b>128.7</b>

- For more details on the one-off items please see Note 5d2 to the financial statements.

Net Profit recorded a similar increase of 256% and amounted to €289.6 million (FY 2017: €113.0 million). The 162% increase in EPS to 56.6 cents (FY 2017: 21.6 cents) reflected both the impact of the growth in Net Profit, as well as the small decline in the average number of shares in issue post share buy-back shortly before period end.

EPS	FY 2018	FY 2017
Profit attributable to ordinary shareholders (€m)	263.3	100.7
Weighted average amount of shares (million)	464.9	465.4
<b>Earnings Per Share (€cent)</b>	<b>56.6</b>	<b>21.6</b>



## Refinancing to enhance capital structure

Alongside the significant growth in portfolio size, substantial progress was achieved in improving the overall terms of debt facilities and the structure of our capital. Success in this regard is reflected in reduced debt service costs amortisation obligations in 2018, plus extensions to the scale and duration of facility terms. These and future initiatives should continue to improve net cash flow and provide additional certainty on future funding costs.

The successful bond issue completed at the start of the Reporting Period and raised €300 million via an issue of senior fixed rate notes at 2.00% interest rate p.a. with a seven-year term. Strong demand was reflected in the total fundraise, which was above our original €250 million target. The proceeds enabled us to refinance approximately €232 million of existing debt facilities as well as the acquisitions during the second half of the year.

In total, we acquired €12.2m of outstanding secured debt and repaid ca. €220m of facilities during the first half of the year, as further explained in Note 7 of the Group's Full Year Report. As the average level of interest expenses of these facilities were at 3.6% p.a., these actions reduced the overall interest cost on the existing outstanding facilities and enhanced cash flows by reduction in overall amortisation.

Independent assessments of the Group's status by credit rating agencies support the Group's business profile and take into account our well-diversified portfolio and large tenant base. These assessments indicate attractive cash flow coverage for debt service costs with an enhanced outlook, due to our proven ability to improve performance via active asset management. Recent reiteration of Group ratings have been confirmed with stable outlook at BB+ by S&P Global Rating in December 2018 and Ba1 by Moody's in February 2019. Both ratings indicate our ability to access funding resources at attractive terms.

Our financing activities fulfil an important component of our strategy, which is to provide the Group with long-term committed debt at attractive rates. This will free up underlying cash flow to finance portfolio expansion and investment in existing assets. The table below sets out the main details of the Group's debt facilities as of 31 December 2018.

Credit Facility	Financing Date		Loan Amount (€mn)	Interest	Amortis <sup>1</sup>	Market Value (€mn)	Loan to Value		DSCR Ratio	
	Start	Maturity					Cov <sup>1</sup>	Actual	Cov <sup>1</sup>	Actual
01	03.2015	3.2022	30	1.96%	3.00%	83	65%	36%	125%	284%
02	10.2012	12.2021	5	e+1.75%	3.00%	15	NR	NR	125%	298%
03	1.2019	12.2025	10	1.90%	2.50%	29	NR	NR	125%	240%
04	6.2014	5.2024	36	4.10%	0.27%	134	NR	NR	225%	271%
05	1.2016	1.2026	10	1.79%	3.00%	21	NR	NR	NR	NR
06	3.2016	3.2026	17	2.26%	2.50%	29	NR	NR	NR	NR
07	4.2016	3.2026	36	2.25%	4.15%	81	NR	NR	NR	NR
08	9.2016	8.2026	4	2.10%	3.50%		NR	NR	NR	NR
09	12.2016	12.2026	15	1.76%	3.00%	35	NR	NR	NR	NR
10		11.2021	60	2.30%	2.00%	106	NR	NR	150%	207%
11		11.2022	21	1.54%	3.00%	30	NR	NR	NR	NR
12		9.2019	17	2.50%	-	30	NR	NR	NR	NR
13		9.2025	48	2.60%	5.35%	88	NR	NR	NR	NR
Other			1							
Unencumbered Assets			-			809				
Senior Notes	1.2018	1.2025	300							
<b>Total incl. Senior Notes</b>			<b>608</b>			<b>1,489</b>		<b>40.9%</b>		

In March 2019, the Group refinanced approximately €27 million of short term debt facilities, which were secured by three properties. The new loan of ca. €29m was provided by a German lender on a 20 year term at a fixed interest rate of 2.7% p.a. and annual amortisation rate of 3.0%. It bears no loan covenants and is secured by the same three properties.

This refinancing further enhanced the Group's debt profile and extended the weighted average term of its debt facilities from 6.0 to 6.8 years as of period end, while maintaining the average interest rate at a level of 2.2% p.a.

### Property portfolio overview

At the end of 2018, the Group's aggregate portfolio comprised 103 assets, approximately 1,067,000 sqm of net lettable space, located on approximately 1,647,000 million sqm of land.

The net annualised contracted income of the portfolio at Reporting Period end was €81.3 million. That is equivalent to a 5.4% p.a. net rental yield, receivable from ca. 750 tenants. Rent uplifts are either linked to CPI, or subject to agreed fixed annual increases.

Type	No. of Assets	Land Size (sqm'000)	Lettable (sqm'000)	Vacant (sqm'000)	Net Rent (€m)	Rent/sqm /month
Office	63	823	658	83	58.0	8.4
Retail	14	138	67	12	5.0	7.7
Logistic	26	686	342	12	18.3	4.6
<b>All segments</b>	<b>103</b>	<b>1,648</b>	<b>1,067</b>	<b>107</b>	<b>81.3</b>	<b>7.1</b>

The Portfolio's income is derived by a high quality multi-tenant base with 43% of the properties comprising of 2-10 tenants. It is also well diversified from sector and geographical perspectives, as further illustrated below.

Over 59% of Group rent is generated from assets located in Germany's five main cities, Berlin (19%), Frankfurt (16%), Stuttgart (9%), Hamburg (7%) and Dusseldorf (8%). Another 33% is derived from Cologne, Munich and other major cities combined, resulting with more than 92% in Germany's major cities. The largest ten properties account for 35% of portfolio income, and 83% of the lettable area is in the former West Germany.

The average rent/sqm per month for the period end portfolio is set out in the table below, with comparison between distinct commercial sectors.

	Offices		Logistic		Retail	
	12.2018	12.2017	12.2018	12.2017	12.2018	12.2017
€/sqm/month	8.4	8.0	4.6	3.7	7.7	7.9
Range in €	(5.0-20.0)	(4.9-17.3)	(2.2-12.3)	(2.2-7.1)	(4.2-18.8)	(3.9-30.5)

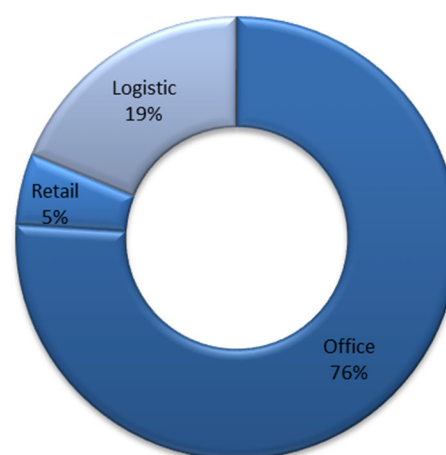
Aggregate portfolio occupancy is currently approximately 90%. The vacancy rate reflects, among others, assets held for future redevelopment. Assuming vacancies would be occupied in the immediate future, annualised net rent would be approximately €90 million p.a., equivalent to a 6.0% p.a. yield on current book value.

Portfolio occupancy and income, adjusted for acquisitions and disposals, have both been improved over the last few years. Net of disposals during the Reporting Period, lettings were steady and occupancy has increased to the level of 92% for the majority of the portfolio.

This stability reflects the Group's strong landlord and tenant relationships, as well as the success of our experienced asset management team and direct approaches made by our marketing unit. During the Reporting Period, we signed new leases for approximately 45,000 sqm, and renewed existing lease agreements for a further approximately 118,000 sqm. This is worth a total of approximately €13.1 million p.a. We see a constant increasing demand for most of our assets at higher rent rates and believe it will result with further increase in both occupancy and rental income.

Offices are the largest component of the portfolio as at 31 December 2018 and comprised 76% of the NMV and 71.3% of Net Rent (FY 2017: 75.6%). This is fully in line with our long-term strategy to focus on this segment, as it is where we see attractive prospects with increasing demand. It is an area in which we can capitalise upon management's depth of experience and one where we have a proven competitive advantage.

**NMV by Sector**



Offices	Logistic	Retail	Total NMV (€bn)
1.1	0.3	0.1	1.5
76%	19%	5%	100%

We remain confident regarding the prospects of German commercial property, which we believe are characterised by increasing demand and positive economic outlook.

## Acquisitions

Our strategy is focused on quality assets with strong income characteristics and tenants. We aim to improve the overall quality of the portfolio by focusing on substantial properties in strong locations and critically assess each proposed acquisition. We seek to identify assets with latent potential, which could respond positively to our asset management approach, or where we see an opportunity to enhance net returns and leverage our strong balance sheet.

The acquisitions completed during the Reporting Period made a material contribution to the scale and diversity of our asset base and were all in line with our strategic factors. The timing of these transactions means that their full impact on the Group's KPI's will be visible in future reporting periods.

### Acquisition of GxP German Properties AG

In August 2018, we completed a major transaction and acquired approximately 72% of the Frankfurt listed company GxP German Properties AG ("GxP") for a total consideration of approximately €44 million. In a short period after completion, we were able to increase our holdings via purchases of shares from several minority shareholders to 77.21% as of 31 December 2018 and 77.43% as of the date of this report.

GxP owns an office portfolio located in major German cities, mainly in Frankfurt, Berlin and North Rhine-Westphalia cities. As of the date of acquisition, it consisted of 12 properties with a value of approximately €167 million, which generate €10.8 million p.a. of net rent and are 89% let. This was equivalent to an implied net rental yield of 6.6% and a 59% LTV ratio.

This acquisition has enhanced our portfolio with quality assets in central locations and we believe there is a substantial upside due to potential letting of vacancies and the opportunity to streamline GxP's operations.

### Acquisition of the Multi Portfolio

In October 2018 we completed an €85 million acquisition, including costs, of a portfolio of eight multi-service centres. The purchase price, net of €51 million senior debt, was financed from existing cash.

The properties are well-located in major German cities, mainly Berlin, Frankfurt and Düsseldorf and generate aggregate net rent of €5.8 million p.a., equivalent to a 6.75% yield on acquisition costs. Net rent is due to increase to €6.1 million p.a. over the next few years under the terms of existing lease agreements.

The portfolio's net lettable area of 58,000 sqm is fully leased to a strong, multi-tenant portfolio, with a weighted average lease length of ca. ten years. It also includes ca. 180,000 sqm of additional building rights for future development.



## Residential development

During 2018 we continued and progressed the development of residential projects on existing sites. Following the building permit obtained for the development of 62 residential units on an existing property plot in Frankfurt, we commenced construction works and sold 54 apartments generating €2.5 million profit during the Reporting Period. As of the date of signing this report, the entire project's units are sold.

We will continue to constantly review the potential to unlock additional latent portfolio value through the development of residential and commercial spaces on our existing properties.

## **Dividends and Share Buy-Back**

€14.0 million of dividends were distributed during the Reporting Period, equivalent to 3.00 cents per share. In addition, in December we repurchased 1.74% of the Group's issued share capital via a fully taken up share buy-back at €1.17 per ordinary share. We cancelled 8,119,658 ordinary shares of no par value and returned €9.5 million to shareholders. Following the transaction there are 457,280,204 ordinary shares in issue traded on AIM.

We remain confident about the outlook for both the Group's portfolio and its underlying markets and intend to continue to return capital to shareholders.

## **Outlook**

2018 was another period of outperformance for the Group. Valuation uplifts and new acquisitions were the background for a substantial growth in the portfolio and although the full impact of recent transactions are expected to be seen over future periods, our core strategic focus on new lettings, facility refinancing and asset management has already boosted all performance measures as of period end.

The strong results for the period are an outcome of our asset management initiatives, which have driven portfolio performance up and delivered returns above initial forecasts. An emphasis on building strong relationships with tenants enabled us to maintain high levels of renewals and portfolio occupancy, as well as to grow and improve the quality of rental income. It is also part of the benefit of progressive upgrades and improvements to our portfolio. This was complemented by the stability of German economy and the strengthening of the German commercial real estate market, where strong and growing demand for most of our assets has driven increases in ERVs, occupancy and rental income levels. The combination of both management and market factors strongly underpin the €296.8 million adjustment to the fair value of the portfolio due to external valuation as of period end.

Acquisitions completed in the second half of the year were aligned with our key strategic objectives and enhanced the spread and diversity of our portfolio. They also provided our asset management team with new opportunities to improve net returns via improved lease terms and occupancy, as well as other synergies to improve operational efficiency. Acquisitions as well as exercising our surplus building rights will remain drivers for portfolio growth and prospective transactions are constantly under review. We intend however to maintain our strict criteria which considers asset quality, location and existing tenant covenants.

A major component of our core strategy is to improve our capital structure, liquidity and finance terms. In order to implement our strategy, we may seek to raise further capital by either raising equity or debt, as well as sales of properties and recycling the equity invested in them.

Our core strategy and the actions we have taken over the last two to three years have enabled us to grow, while still remaining flexible and well positioned to take advantage of further upsides in the portfolio.

We believe that our portfolio carries an additional inherent value yet to be unlocked over the next years and we are currently looking into different ways to release built up value. We have already identified multiple opportunities to build net returns from our properties by improving tenancies and rental income or by carrying out refurbishment and development of existing building rights. We remain confident that our under-rented portfolio has upside potential to generate further growth in portfolio returns and continue to deliver attractive income and capital returns to our shareholders.

Harry Hyman  
Chairman

Zohar Levy  
Managing Director

17 April 2019



Hafenstr. 16. Saarbrücken

# Our Business

## Our Business

Summit Properties is a German commercial real estate company, with a portfolio of quality properties mainly focused in Germany's key cities. We aim to expand our sizeable portfolio through acquiring undervalued properties and portfolios, and enhancing their value through active management. Our major objective is to drive up the capital values of our properties, and in turn generate attractive dividend yields for our shareholders.

Our 50 strong internal management team is based in Berlin, Frankfurt and Hamburg and have on average over 10 years of experience managing and investing in high yielding properties across Germany. The team works hard to strengthen our relationships with tenants and takes care of both property maintenance and marketing of the vacant units and lease renewals. The team has the skills and experience to meet the tenants' needs, with adequate capacity to absorb new acquisitions and manage them from day one.

Our strategy is to acquire relatively high yielding German commercial assets, located in main German cities with potential for rent uplift and/or capital value upside:

Focusing on quality buildings in established locations, with:

- Long term stable income
- High positive yield gaps
- Low capital values, below their replacement cost
- Sustainable growing cash flow to deliver attractive dividend yield
- Substantial upside potential for rent and capital value increase through growth of the German property market

We maximise value via:

- Pro-active asset management with strong local on-site management
- Reducing vacancy rates by letting, redevelopment and/ or conversion to residential use

Our strategy is achieved by being well positioned to take advantage of various situations in the market. Using our strategic contacts, we evaluate the potential investments assessing their potential yield and capital growth. We also review opportunistic investments which, via intensive asset management, can improve occupancy rates or rezoning which leads to strong cash flow and increasing capital growth for shareholders.

Following the UK's decision to leave the EU as a result of the referendum held on 23 June 2016 and the consequential uncertainty surrounding the UK economy, the company is constantly monitoring and considering the impact that this decision could have on its business in the longer term. It is to be noted, that all assets and the related business activities of the Group's portfolio are located in Germany.

The Board monitors Key Performance Indicators ("KPIs") as set out hereafter to review the Group's performance in meeting its Strategic Objectives.



# Key Performance Indicators (“KPIs”)

## Objective: To maximise long term stable income

### *Metric*

- Continue to increase rent roll
- Maintain weighted average lease term
- Retention rate which reflects the Group’s strong relationship with the tenants and their satisfaction with the leased space

### *Performance*

- On a Like-for-Like (“LFL”) basis the rental income during the year amounted to €59.7 million, reflecting an increase of 2.8% compared to €58.1 million in 2017.
- Following new acquisitions of properties during the Reporting Period, the rental income has further increased by 11.4%, amounting to €67.4 million as of year-end (FY 2017: €60.5 million).
- Rent per sqm has increased by 7.7% mainly due to increase in market rent, fixed rental uplifts integrated in the new lease agreements as well as 2018 acquisitions.
- Weighted average lease length of 4.2 years (4.0 years as of 31 December 2017).

## Objective: To deliver sustainable long-term shareholder value and returns

### *Metric*

- Sustained growth in Earning Per Share (EPS)
- Growth in EPRA NAV per share
- Dividend distribution

### *Performance*

- EPS increased 162.0% to 56.6 cents per share (FY 2017: 21.6 cents).
- EPRA NAV per share increased 53.6% to €1.89 (FY 2017: €1.23).
- Quarterly dividend payments in 2018 amounting to 3.0 cents per share, reflecting an annual yield of 5.71% on second placing price of 70 cents per share (7.20% yield including Dec. 2018 buyback).

## Objective: To manage our balance sheet effectively

### *Metric*

- Maintain longevity of debt facilities
- Maintain appropriate balance between debt and equity within covenanted levels

### *Performance*

- €300 million bond placement during the Reporting Period; Notes bear 2.00% p.a. for seven years.
- Refinancing €232.2 million of secured debt facilities using bonds proceeds;
- LTV net of cash at 39.5% well within current and future covenant limits (FY 2017: 37%).
- Refinancing €27 million of short term debt facilities in early 2019; New loan is at 2.7% fixed interest rate on a 20 year term.
- Following refinancing activities, the average duration of the Group facilities extended from 6.0 to 6.8 years with an average fixed interest rate of 2.2% p.a. (FY 2017: 5.7 years; 2.2%)

## The German market

In 2018, Germany retains its position as the fourth largest economy in the world and the largest economy in Europe. Gross Domestic Product of Germany grew 1.5% in 2018, compared with 2.2% in 2017. On a longer-term view this rate exceeded the average growth rate of the last ten years (+1.2%). Apart from other encouraging factors, it is the positive growth of the German economy that remained the key driver for the ongoing strong demand within the German commercial real estate market.

High demand and shortage of supply pushed 2018 to end up with a commercial real estate transaction volume totalling €60.3 billion, emphasising a new record year for commercial real estate investment. Germany also maintained its position as an international market place for commercial properties, attracting foreign capital to take up almost 40% of the transaction volume in 2018.

The diversified investment trends seen in the last two years were maintained throughout 2018, with focus of investors clearly on the top 7 main cities. Berlin, Düsseldorf, Frankfurt, Hamburg, Cologne, Munich and Stuttgart accounted also in 2018 for more than half of the total transaction volume in the German real estate market.

The office investment market remained the most favourable with approximately 50% of the investment volume. This was followed by retail, logistic and mix use properties. Increasing demand and shortage of supply led to a drop in yields for office properties in the top seven cities to 3.11% compared to 3.27% in 2017.

The low supply of new office building is a result of the moderate rate of completion of new offices in recent years, which is expected to remain relatively unchanged over the near future. Based on this outlook, vacancy rates are expected to further decrease in 2019, while rental income levels continue to increase. This will support the confident outlook of the German real estate market as German commercial properties are anticipated to remain very attractive to investors.



Friedrichstrasse, Berlin

# Directors' Report for the year end

# Directors' Report for the year end

## The Company

Summit Properties Limited ("the Company" and together with its subsidiaries "the Group") was incorporated and registered in Guernsey as Summit Germany Limited on 19 April 2006.

The Group owns, enhances and operates commercial real estate assets in Germany including office buildings, logistic centres and others, which are leased to numerous commercial and industrial tenants. The Group invests primarily in such properties that provide substantial income flows and potential for value increase through asset management. The Group does not acquire properties for speculative purposes.

In December 2013 the Company resolved to admit its shares to trading on the AIM market of the London Stock exchange ("LSE"). The process successfully completed on 26 February 2014 when the placing took place and a further 54,971,291 new ordinary shares were issued at a price of 63 cents. The gross proceeds amounted to €35 million. On 2 February 2015 the Company completed a further fund raising of 171,428,571 new ordinary shares issued at a price of 70 cents. The gross proceeds amounted to €120 million. On 9 December 2018 the Company repurchased and cancelled 8,119,658 ordinary shares of no par value in the capital of the Company. Following the Buy-back the Company has 457,280,204 ordinary shares in issue and admitted to trading on AIM with no ordinary shares in treasury.

On 20 February 2019 the Company changed its name from Summit Germany Limited to Summit Properties Limited, in accordance with the resolution of an extra-ordinary general meeting held on the that day.

## Results

The results for the year are shown in the Consolidated Statements of Comprehensive income on page 48. The Group recorded a profit for the year attributable to ordinary shareholders of €263.3 million, representing an EPS of 56.6 cents per ordinary share (FY 2017: €100.7 million, 21.6 cents per ordinary share).

At the year end the Group had net assets of €841.3 million (FY 2017: €566.1 million), of which €782.0 million (FY 2017: €533.3 million) was attributable to ordinary shareholders, equating to 171 cents per ordinary share (FY 2017: 115 cents).

Further details on the Group results are described in the Chairman's and Managing Director's report.



## Directors' and Other Interests

The following Directors, including persons connected with them, held the following number of Ordinary Shares:

	<i>At 31 December 2018</i>	
	<b>Ordinary Shares</b>	
	<b>Number</b>	<b>% of issued Share Capital</b>
Zohar Levy <sup>1</sup>	230,956,745	50.507%
Itay Barlev	25,000	0.005%
Quentin Spicer	59,040	0.013%
Harry Hyman <sup>2</sup>	148,197	0.032%
Christopher Spencer	10,000	0.002%

<sup>1</sup> The shares are held by Summit Real Estate Holdings Limited through its wholly owned subsidiaries (Unifinter Administratiekantoor B.V. (Netherlands)).

<sup>2</sup> Including 15,520 shares held by his spouse.

## Management

Summit Management Co S.A. ("SMC"), a Swiss company owned by Zohar Levy, has provided portfolio management services to the Group since May 2006.

Under the management agreement, SMC is responsible for providing certain public company services and advisory services to the Group and is entitled to an advisory fee equal to €750,000 per annum, payable quarterly, plus the potential to receive a performance-based bonus of up to €750,000 per annum, depending on certain performance criteria.

For more details on the contract please see Note 13 to the financial statements.

## Going Concern and financing development

As at 31 December 2018, the Group's bank and senior notes borrowings amounted to €603.1 million (FY 2017: €389.4 million). The increase in borrowings from 31 December 2017 to the balance sheet date resulted from the engagement of the Group in financing transactions during the Reporting Period. Further information on the Group's financing transactions is detailed in the Chairman's and Managing Directors report and in Note 7 of the Group's financial statements.

In order to secure the low interest rate of the debt facilities over the long term, the Group entered into hedging arrangements, or alternatively agreed with the financing bank on a fixed interest rate for the remaining life of the new loans. As a result, total interest costs during the Reporting Period were reduced to €13.7 million during the Reporting Period (FY 2017: €19.7 million) as a result of the engagement of the Group in financing transactions, as mentioned above.

The terms and covenants of the debt facilities are described in Note 7 of Group's financial statements. As of the date of this report the Group is in compliance with all covenants.

The Group's expanded property portfolio continues to generate a positive and stable cash flow that enables the Group to meet all of its obligations. Management constantly reviews the covenants ahead and based on management assumption the Group expects to comply with all of its covenants in the near and medium future.

In March 2019 the Group refinanced €27 million of short term debt facilities via a new loan at a fixed interest rate of 2.7% provided on a 20 year term. This refinancing measurement extended the average duration of debt facilities of the Group from 6.0 to 6.8 years.

The Directors and management monitor the Group's position in light of the market indicators, on an ongoing basis. The Directors believe the Group is well placed to continue its activity to enhance value.

After careful consideration of all of the above factors, the Board has concluded that it is appropriate to prepare the consolidated financial statements on the going concern basis.

## **Litigation**

The Company is not engaged in any litigation or claim of material importance, nor, so far as the Directors are aware, is any litigation or claim of material importance pending or threatened against the Company.

## **Board of directors**

The Board currently comprises five members, three of whom are independent non-executive Directors.

For further information on Board composition as well as Board responsibilities please see the Chairman's governance report.

## **Responsibilities Statement**

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and of the profit or loss of the Group for that period. In preparing these financial statements, International Accounting Standard 1 requires that directors:

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- to make an assessment of the Group's ability to continue as a going concern.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group's transactions and disclose with reasonable accuracy at any time the financial position of the Group and enable them to ensure that the financial statements comply with the Companies (Guernsey) Law, 2008. They are also responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the Group's website. Legislation in Guernsey and the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

#### **Disclosure of Information to the Auditor**

The Directors who held office at the date of approval of this Report of the Directors confirm that, so far as they are aware, there is no relevant audit information of which the Company's auditor is unaware and each Director has taken all the steps that he ought to have taken as a Director to make himself aware of any relevant audit information and to establish that the Company's auditor is aware of that information. This information is given and should be interpreted in accordance with the provisions of section 249 of The Companies (Guernsey) Law, 2008, as amended.

#### **Auditor**

Deloitte LLP has expressed its willingness to continue to act as Auditor to the Company and a resolution for its re-appointment will be proposed at the forthcoming Annual General Meeting.

Approved by the Board of Directors and signed on its behalf on 17 April 2019.

Zohar Levy  
Managing Director

Itay Barlev  
Finance Director



Deutsche Med, Rostock

# Chairman's Corporate Governance Report



# Chairman's Corporate Governance Report

The Board resolved to comply with the Quoted Companies Alliance ("QCA") Corporate Governance Code (the Code). The Board believes that a strong system of governance is essential to help the business run smoothly and aid effective decision making in order to support the achievement of the Group's objectives.

It is the Board's view that the Group has been fully compliant with the relevant provisions of the Code.

During 2018, the QCA issued a revised and fully updated Code. Further information on the Code can be found on the QCA's website at [www.theqca.com](http://www.theqca.com)

The Board also established processes and procedures to support its governance which includes the AIM rules compliance policy, an accounting procedures manual and financial closing and reporting policies.

## Principal Risks and Uncertainties

The Board acknowledges that a sound system of internal control depends on a thorough and regular evaluation of the nature and extent of the risks to which the Group is exposed. Management are experienced in risk evaluation and, in conjunction with the wider executive, risks are considered on a regular basis, typically daily by the management team and more formally at Board meetings. The management team reports to the Board by way of a risk matrix highlighting the significant changes and their implications, and the recommended responses.

This process helps manage and control risks rather than eliminate them. Note 18 provides further detail and quantitative information on the risks faced by the Group.

Please see below the Audit and Risk Committee report for further details on the processes to identify and address risks in the Group.

The key risks the Group is exposed to, the measures taken to mitigate them and additional commentary is as follows:

### Financial risks:

<i>Risk:</i>	<b>Exposure to interest rate movement</b>
<i>Impact:</i>	Movement in underlying interest rates could adversely affect the Group's profits and cash flows
<i>Mitigation:</i>	The Group mitigates its exposure to interest rate movements on floating rate facilities through the use of interest rate swaps and other derivative instruments or alternatively by agreement with debt providers on a fixed interest rate. During the Reporting Period the Group completed a €300 million placement of senior fixed rate notes at 2% p.a. for a seven-year term and refinanced approximately €232 million of debt facilities. After the end of the Reporting Period, the Group refinanced ca. €27 million of short term debt facilities with a new 20 year term loan at a fixed interest rate of 2.7%. Following the above transactions, the Group facilities bear an average interest rate of 2.2% p.a. fixed over an average duration of 6.8 years.

- Risk:** **Limited credit market capacity**
- Impact:** Without confirmed debt facilities the Group may be unable to meet its commitment to repay or refinance loans.
- Mitigation:** The Group regularly monitors its cash flow and debt funding requirements in order to ensure that it can meet its liabilities and looks to retain a spread of providers and maturities so that its refinance risk is less concentrated. In 2016 the Group refinanced €89 million by ten-year term debts from five different debt providers. In 2018 the Group issued €300 million fixed rate senior notes for a seven-year term, mainly to refinance medium term existing debt facilities. As of 31 December 2018, the Group has approximately €608 million of debt facilities obtained from 11 different lenders with an average duration of 6.0 years.
- 
- Risk:** **Lack of capital resources to support the Group's plans for expansion**
- Impact:** Without sufficient capital, the Group may become unable to progress investment opportunities as they arise or to counteract the impact of potential falling property values on the Group's balance sheet and finance commitments should property values fall in the future.
- Mitigation:** Liquidity and gearing are kept under review by management and the Board. Forward funding commitments are only entered into if supported by committed, available funds. The Company undertook placings of shares in 2014 and 2015 raising a total gross amount of €155 million. In January 2018 the Group completed a €300 million placement of senior rate notes and used the proceeds for debt refinancing and properties acquisition. Following refinancing and acquisitions the Group's available cash amounted to €19.5 million, low LTV of 40.9% and unencumbered assets of €809 million as of 31 December 2018.
- 
- Risk:** **Banking facilities include various covenant requirements**
- Impact:** A failure to meet the facilities' covenants could result in possible default or penalties being levied.
- Mitigation:** In response to this risk the Group regularly monitors its compliance with covenants and addresses any issue that may arise. One of the measures taken is seeking to maintain headroom within its debt facility covenants by maintaining its borrowings at levels below its maximum covenant requirements and retains the flexibility of substituting security or refinancing loans should it need to. Covenants are set with the banks on basis of a sound and reliable analysis of financial performance and business plan and on a facility by facility basis. As a result of the recent refinancing activities, exposure to this risk has decreased significantly, as recent facilities include minor or no covenants whatsoever.

## Property market risks

- Risk:** **The Group's investment portfolio is concentrated in a single country**
- Impact:** Changes in the German economic environment expose the Group to several risks including loss of rental income and increased vacant property costs due to dramatic decrease in demands or devaluation of the portfolio.

*Mitigation:* The Board believes these risks are reduced due to the proven relationship the Group has with the tenants which enables it to recognise tenants in difficulties, as well as to anticipate units becoming vacant and to respond immediately. This risk is also reduced due to the diversified tenancy and diversified use in the portfolio. The measures taken against the exposure to \tenants' default include among others rent deposits or bank guarantees as well as periodical credit analysis when necessary.

*Risk* **Exposure to movements in supply and demand of the investment market**

*Impact:* Competition within the real estate market will lead to growing demand for real estate investments which may result in rising prices that will challenge the Group's possibilities for purchasing attractive yield properties.

*Mitigation:* The Group's internal management team is constantly considering new properties enabling the Group to hold a pipeline of new acquisition opportunities. The Board believes that the risks are reduced due to the Group's strong and professional local management platform, which enables the Group to move fast once a possible deal is identified. This risk is also reduced due to the opportunities arising to the Group in generating higher gains on its disposed properties or using its surplus building rights for the development of new properties.

*Risk* **Property valuations may fall**

*Impact:* Property valuations may fall to such a level that leads the Group to breach its borrowing covenants.

*Mitigation:* To mitigate this risk the Group makes efforts to get a period of holiday from loan to value covenant or to exclude it when entering new refinancing agreements. The Group also manages its activities so as to always operate within its banking covenant limits and constantly monitors the margins (i.e. fall to breach) that would have to be experienced in order to cause any default.

## **Taxation risks:**

*Risk:* **Changes in government legislation**

*Impact:* Changes in the government legislation in the jurisdictions the Group is active in may negatively affect the Group which can become chargeable to taxation with a significant impact on performance and strategy.

*Mitigation:* The Group monitors any proposals for change in legislation and in regular contact with its tax advisors in this respect in order to be able to respond to any changes in the most efficient way.

The Board is responsible to shareholders for promoting the long term success of the Group and, in particular, for setting the Group's strategic aims, monitoring management's performance against the strategic aims, setting the Group's risk appetite, ensuring the Group is adequately resourced and ensuring that effective controls are in place in the business. The Board also sets the values and the culture of the Group and has a duty to protect the interests of shareholders.

The specific duties of the Board are clearly set out in its terms of reference which address a wide range of corporate governance issues and lists those items that are specifically reserved for decision by the Board. Matters requiring Board approval include:

- Group strategy and business plans;
- Financial reporting and controls, capital structure and dividend policy;
- Group risk appetite and framework;
- Corporate governance;
- Remuneration policy;
- Significant transactions and expenditure; and
- Other matters.

Further information on the Matters Reserved for the Board can be found on the Group's website at [www.summit-properties.com](http://www.summit-properties.com)

## **Board composition**

The Board comprises two executive directors (Group Managing Director and the Group Finance Director) and three non-executive directors including the Chairman, whom the Board consider to be independent. The selection of Board members was made with comprehensive thinking to create synergy by including experienced persons with different strengths.

The executive directors both have extensive experience in the German real estate market and have a wide range of contacts in the market. The Managing Director has been involved with the Group activity for many years.

The non-executive directors have extensive experience in many other companies and committees and they can contribute this experience to the Board, setting guidelines to improve reporting and communication.

The training needs of each Director are regularly reviewed by the Chairman. Directors are able to receive training or additional information on any specific subject pertinent to their role as a Director that they request or require. All Directors have access to independent professional advice at the Company's expense, if deemed necessary and subject to clearance by the Chairman.

The Group maintains appropriate insurance cover in respect of any potential legal action against the Company's Directors.

Details of the Directors are set out below:

*Harry Abraham Hyman - Independent Non-Executive Chairman*

Mr. Hyman has over twenty years' experience in fund management and investment in the healthcare and real estate sectors. He graduated from Christ's College, Cambridge in 1978 and trained at Price Waterhouse as a trainee accountant from 1979 to 1983 before qualifying as a chartered accountant. From 1983 to 1994, Mr. Hyman was a finance director of Baltic. In 1996, he founded Primary Health Properties PLC, a real estate investment trust with a property portfolio of over £1.3 billion in the primary healthcare sector. From 2008 to 2010, Mr. Hyman was the chairman of the Israel-Britain Business Council, a private sector driven body of approximately 60 business leaders in Israel and the U.K. who serve as high level trade and investment ambassadors for their respective countries. Mr. Hyman currently holds professional memberships with the Association of Corporate Treasurers, the Corporate Finance Faculty, and is a Fellow of the Institute of Chartered Accountants in England & Wales.

*Zohar Levy - Executive Director - Managing Director*

Mr. Levy, who qualified as a chartered accountant in 1992, is the controlling shareholder and chairman of the board of the Summit Group, which specialises in investing in office, industrial and commercial properties in Israel and Germany and in developing, improving and managing such properties. Mr. Levy acquired control of the Summit Group in early 2003 and has since developed its business significantly through debt restructuring, the improvement of properties by way of lease negotiations and renovations, and the acquisition of office, commercial and industrial properties throughout Israel and Germany. Since Mr. Levy's acquisition of the control of Summit, the scope of its real estate properties has increased significantly, and its gross annual income has increased by more than 1,000 per cent. Prior to his involvement with Summit, Mr. Levy served for a decade as the chief financial officer of the Engel Group of real estate companies, which specialised in the development of residential properties and the acquisition and management of commercial properties in Europe and North America.

*Itay Barlev (Braun) - Executive Director - Finance Director*

Mr. Barlev is a chartered accountant and holds a bachelor degree in economics and accounting and a master degree in legal studies. He has several years of experience in reporting and budgeting, purchase and sale of real estate, internal control procedures and bank relations as well as various financial affairs of real estate portfolios. Prior to joining the Summit Group in 2014, Mr. Barlev served as financial advisor with KPMG for four years and was the director of Fishman Holdings Germany GmbH for eight years.

*Quentin Spicer - Independent Non-Executive Director*

Mr. Spicer qualified as a solicitor with Wedlake Bell in 1968 and became a partner and head of the property department in 1970. In 1996, he moved to Guernsey to become senior partner at Wedlake Bell Guernsey specialising in U.K. property transactions and secured lending. He retired from practice in 2014.



He is Chairman of Alternative Liquidity Fund Limited and former Chairman of Quintain Guernsey Limited, the Guernsey Housing Association LBG, and F&C UK Real Estate Investments Limited. He is a non-executive director of several other property funds including Phoenix Spree Deutschland Limited. Mr. Spicer was formerly a director of the Company when it was first admitted to trading on AIM in 2006 until it-delisted. He is a member of the Institute of Directors.

#### *Christopher Spencer - Independent Non-Executive Director*

Mr. Spencer, a resident of Guernsey, qualified as a chartered accountant in London in 1975. Mr. Spencer specialised in audit and fiduciary work and was Managing Partner/Director of Pannell Kerr Forster (Guernsey) Limited / Praxis Holdings Limited from 1990 until his retirement in May 2000.

Mr. Spencer is a member of the AIC Offshore Committee, a past President of the Guernsey Society of Chartered and Certified Accountants and past Chairman of the Guernsey Branch of the Institute of Directors. He is currently a non-executive director of other listed companies including JPEL Private Equity Limited and SQN Finance Income Fund and Group Companies.

For the Non Executives terms of appointment please see the Group website at [www.summit-properties.com](http://www.summit-properties.com)

#### **Board independence**

The appointment of the non-executive directors was subject to a rigorous review of their independence. The current Board composition includes three non-executive directors one of which is the Chairman.

#### **Description of Roles**

Role profiles are in place for the Chairman and Managing Director which clearly set out the duties of each role. The Chairman's priority is leadership of the Board and ensuring its effectiveness; the Managing Director's priority is the management of the Group. The Board has delegated the day-to-day running of the Group to the Managing Director within certain limits, above which matters must be escalated to the Board for consideration and approval.

The Finance Director reports on a range of issues including financial results and forecasts; capital; operational performance; strategic initiatives; risk appetite; corporate transactions and compliance with loan covenants.

The role of the independent directors is to provide a sounding board for the Chairman and to be available to shareholders should they have concerns that they have been unable to resolve through normal channels, or when such channels would be inappropriate.

## Meetings and Attendance

In addition to the Board meetings held during the year, the Board is regularly in touch for consultation by electronic means and met for an off-site strategy meeting and for the AGM. Directors were sometimes unable to attend meetings due to short notice for ad hoc meetings, but full Board packs are distributed to all Board members for all meetings and separate discussions were held with, or comments were sought by, the Chairman on all matters of relevance.

During the year, the Board and its committees held 18 meetings (including ad hoc meetings). Throughout the year there are opportunities for the Chairman and Independent Directors to discuss matters without the other Directors being present.

Attendance at meetings of the Board and its committees in the 2018 financial year is summarised below:

	Board	Committee of the Board	Audit and Risk Committee	Remuneration and Nomination Committee
Number of meetings during the year	12	2	2	2
Harry Hyman	12	2	2	2
Itay Barlev	12	2	2	N/A
Zohar Levy	9	1	N/A	N/A
Christopher Spencer	10	1	2	1
Quentin Spicer	12	2	2	2

## Board Committees

The following Committees have been established by the Board upon admission in February 2014, and have been granted specific delegated authority to consider certain aspects of the Group's affairs:

- Audit and Risk Committee
- Remuneration and Nomination Committee

The Chairman of each Committee reports back to the Board as and when appropriate. Reports from each committee Chairman are included below.

Terms of reference for each committee are available on the Group's website at

[www.summit-properties.com](http://www.summit-properties.com)

## **Audit and Risk Committee Report**

The Audit and Risk Committee is chaired by Christopher Spencer. He is supported by Harry Hyman and Quentin Spicer both independent non-executive directors.

Christopher Spencer is a qualified chartered accountant and, as can be seen from his biography on page 29, he possesses the recent and relevant commercial knowledge and experience to satisfy the provisions of the Code. The Committee may invite the Managing Director and the Finance Director to attend the meetings as appropriate.

### **Responsibilities**

The Committee has responsibility for safeguarding the shareholders' investment and the Group's value. It has overall responsibility for ensuring that the Group maintains an ongoing system of internal control and risk management, to provide it with reasonable assurance regarding effective and efficient operation, internal financial control and compliance with laws and regulations.

The Committee shall monitor the integrity of the financial statements of the Company, including its annual and half-yearly reports and any other formal announcement relating to its financial performance, reviewing and reporting to the Board on significant financial reporting issues and judgements which they contain having regard to the matter communicated to it by the auditor. The Committee should perform any procedure it finds necessary.

The Committee makes recommendations to the Board on the appointment and dismissal of the external auditor and approval of their remuneration and terms of engagement; it would also monitor and review the external auditors' independence, objectivity and effectiveness, taking into account professional and regulatory requirements.

### **Report on the Committee's activities**

The Committee was appointed in February 2014. Since then its activity included:

- reviewing the Group's draft annual financial statements prior to discussion and approval by the Board, and reviewing the external auditor's reports thereon;
- reviewing the auditors' plan for the audit of the Group's financial statements;
- reviewing the Group's draft half year financial statements prior to discussion and approval by the Board, and reviewing the external auditor's reports thereon;
- considering the qualifications, expertise, resources and independence of the auditors through reviews of their reports and performance;
- the committee Chairman meeting with the auditors to review the audit plans and progress, accounting processes and to discuss emerging points and early drafts of the financial reports; and
- the committee receiving presentations from the management on the subject of risk, its identification and property portfolio management.

The Audit and Risk Committee has reviewed the contents of 2018 annual report and accounts and advised the Board that, in its view, the report is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's performance, business model and strategy.

### **Effectiveness of the external audit process**

The effectiveness of the audit process is dependent on appropriate audit risk identification at the start of the audit cycle. The Committee received from Deloitte LLP a detailed audit plan, identifying their assessment of these key risks. For 2018, the primary risks identified were in relation to the valuation of the property portfolio, accounting of the property acquisition transactions and financing. The Board and the management take responsibility for exercising judgement when necessary in preparing the Annual Report and Financial Statements.

Management prepares and reviews papers provided to the Auditors setting out judgements and approaches taken to specific items. The work undertaken by the auditors in this area to test management's assumptions and estimates is challenged by the Audit and Risk Committee who assess the effectiveness of the audit process through the reporting received from Deloitte LLP at both half-year and year end.

In addition, the Audit and Risk Committee seeks feedback from the management on the effectiveness of the audit process. The Committee is satisfied with the effectiveness of the Auditors.

### **Significant accounting matters**

The Committee considers all financial information published in the Annual and Half-year Financial Statements and considers accounting policies adopted by the Group, presentation and disclosure of financial information and, in particular, the key judgements made in preparing the Financial Statements.

#### *Valuation of the property portfolio*

The Group has property assets of €1.5 billion as detailed on the Group Balance Sheet. As explained in Note 5B to the financial statements, properties are independently valued by an external expert in accordance with IAS40: Investment Property. The Audit and Risk Committee reviewed and discussed with management the judgements and assumptions made in respect of the property valuation, reviewed the valuer's report, and concluded that the valuation remains appropriate.

#### *Property acquisition transactions*

In August 2018, the Group completed the acquisition of 77.21% interest in GxP German Properties AG ("GxP"), a company listed in Frankfurt stock exchange for approximately €46 million.

In October 2018, the Group acquired a portfolio of commercial properties for a total purchase price of approximately €85 million.

The Audit and Risk Committee has reviewed the transactions as part of reviewing the Group's financial statements 2018 and reviewed the external auditor's reports thereon. The Audit and Risk Committee discussed with the management the judgements and assumptions concerning the accounting treatment of the transactions (specifically whether the transactions were business combinations or asset acquisitions) and concluded that treatment was appropriate.

### **Internal control**

The Audit and Risk Committee is responsible for the Group's system of internal control, which has been in operation to the date of this Report, and for reviewing its effectiveness. It believes that the key risks facing the business have been identified and it has implemented an ongoing system to identify, evaluate and manage these risks that is based upon, and relevant to, the Group's business.

The Committee believes key features of the system of internal control include a comprehensive system of financial reporting and business planning, formal documentation procedures and the close involvement of the Managing Director and the Finance Director in all aspects of the day-to-day operations. The scope and quality of the systems of internal controls are monitored and reviewed and regular monitoring reports are provided to the Board. Any incidences of significant control failings or weaknesses that have been identified and the extent to which they have impacted on the Group are reported to the Board and the Board ensure that the management take the necessary actions to remedy those failings or weaknesses immediately.

Nevertheless, the Committee believes that, although robust, the Group's system of internal control is designed to manage, rather than eliminate, the risk of failure to achieve the Group's business objectives. Therefore, the system can provide only reasonable and not absolute assurance against material misstatement or loss.

In preparing the periodic financial reports of the Group, the Committee is reliant on the policies and procedures followed by the Management to ensure that the records accurately reflect transactions so as to facilitate the production of consolidated financial statements in accordance with International Financial Reporting Standards ("IFRS") and other applicable reporting standards. In addition, the integrity of the financial reporting and consolidation processes and the completeness and accuracy of financial information are subject to review by the Audit and Risk Committee and the Board.

### **Internal audit**

The Audit and Risk Committee considers annually the requirement for an internal audit function. The focused nature of the Group's business, its size and simple structure together with the regular review of the processes and performance has led the Committee to recommend to the Board that, at the present time, there is no current requirement for an internal audit function.



## Remuneration and Nomination Committee report

The Remuneration and Nomination Committee meets at least once per year and comprises three Independent Directors being Quentin Spicer (Chairman of the Committee), Christopher Spencer and Harry Hyman, and one executive director, Zohar Levy (Managing Director).

Its role is to seek and retain the appropriate caliber of people on the Board and recommend fee levels to the Board consistent with prevailing market conditions, peer group companies and Directors' roles and responsibilities.

The Remuneration and Nomination Committee is responsible for determining and agreeing with the Board the framework or broad policy for the remuneration of the Executive Directors, the Company Secretary, and such others, and to provide recommendations to the Board.

In carrying out its duties the Committee considers the likely consequences of any decision in the long term; the interests of the Group's employees; the need to foster the Group's business relationships with suppliers, advisors and others; the impact of the Group's operations on the community and the environment; the desirability of the Group maintaining a reputation for high standards of business conduct; and the need to act fairly as between the members of the Group.

The Committee Chairman reports formally to the Board on its proceedings after each meeting on all matters within its duties and responsibilities. The Committee makes whatever recommendations to the Board it deems appropriate on any area within its remit where action or improvement is needed.

### Report on the Committee's activities

The Committee was appointed in February 2014, since then the Committee discharged its responsibilities, under its terms of reference, by:

- Reviewing the amended property management agreement, in particular the bonus mechanism. Following discussions, the Committee recommended the Board to approve the amendment;
- Reviewing the second amendment to the property management agreement, in particular the bonus mechanism for 2018. Following discussions, the Committee recommended the Board to approve the amendment;
- Establishing an appropriate process for the review, management and monitoring of the Group's remuneration policies and nomination criteria; and
- Considering the appointment of Directors.

## Board performance and evaluation

The Chairman is responsible for ensuring the annual evaluation of the Board's performance and that of its committees and individual Directors. This should be done by discussions based on the process and questions outlined in the Code concerning Board and Committee performance and meetings.

An evaluation of the Board's performance was conducted in 2018 and included questions on different aspects of the operation of the Board and its committees and the performance of individual directors. Based upon the results of the evaluation, it was concluded that the Board and its committees are operating effectively and that the individual directors' performance is effective and demonstrates the level of commitment expected by Company.

## Board and management remuneration

During the Reporting Period the Group expensed approximately €342,520 to its Directors, and €1,500,000 as a management fee to Summit Management Co S.A.

Directors' fees paid for the year ended 31 December 2018 were as follows:

<b>Non-Executive Directors</b>	<b>€</b>
Harry Hyman	67,102
Quentin Spicer	41,776
Chris Spencer	43,392
<b>Executive Directors</b>	
Zohar Levy*	-
Itay Barlev	190,250

\* Zohar Levy is paid via the management fee paid to Summit Management Co S.A., as described in Note 13B.

On Admission the Group established the Long Term Incentive Plan ("LTIP"), under which awards and options over Ordinary Shares may be granted to selected employees of the Group (including directors employed by the Group). The LTIP will be used to recruit, retain and motivate key personnel. The Company adopted a plan on similar terms for the purposes of granting awards and options over Ordinary Shares to directors of the Group, who are not also employed by the Group, and consultants providing services to the Group.

Awards and options granted under the LTIP will vest subject to continued employment within the Group over a specified period and, in certain cases, the achievement of performance conditions. No grants under the LTIP were made to date.

## Corporate Social Responsibilities

The company management and its Board of Directors acknowledge the importance of Company's impact on society. In this scope, corporate responsibility is considered in the three main areas – transparency, environmental responsibility and responsibility to community.

The shared beliefs of the Group are:

Businesses should support and respect the protection of human rights and ensure that a business is not complicit in human rights abuses – the Group business practices promote equal opportunity for all, providing fair wages and employment terms, and fostering an open dialogue with all of our employees.

Businesses should eliminate all forms of forced and compulsory labour - we are against any and all forms of child labour and compulsory labour, encourage decent employment opportunities and support employees' rights at work.

We believe that our businesses should support a precautionary approach to environmental challenges - we encourage the development and diffusion of environmentally friendly technologies.

### Responsibility statement

The responsibility statement has been prepared in connection with the Group's full Annual Report for the year ended 31 December 2018.

We confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with International Financial Reporting Standards as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole; and
- the Chairman's and the Managing Director's report as well as the Chairman Governance report and Directors report, include a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

By order of the Board

Harry Hyman,

Chairman,

17 April 2019

## Advisers

### Secretary

#### **C.L. Secretaries Limited**

1<sup>st</sup> and 2<sup>nd</sup> Floors  
Elizabeth House  
Les Ruettes Brayes  
St Peter Port  
Guernsey  
GY1 1EW

### Administrator

#### **Carey Commercial Limited**

1<sup>st</sup> and 2<sup>nd</sup> Floors  
Elizabeth House  
Les Ruettes Brayes  
St Peter Port  
Guernsey  
GY1 1EW

### Nominated Adviser and Joint Broker to the Company

#### **Liberum Capital Limited**

Ropemaker Place  
Level 12  
25 Ropemaker Street  
London  
EC2Y 9LY

### Joint Broker to the Company

#### **Cenkos Securities plc**

6.7.8 Tokenhouse Yard  
London  
EC2R 7AS

### Solicitors to the Company as to English Law

#### **Norton Rose Fulbright LLP**

3 More London Riverside  
London  
SE1 2AQ

### Solicitors to the Company as to German

#### **Property Law**

#### **Taylor Wessing**

Senckenberganlage 20-22  
60325 Frankfurt  
Germany

### Guernsey Advocates to the Company

#### **Carey Olsen**

PO Box 98  
Carey House  
Les Banques  
St. Peter Port  
Guernsey  
GY1 4BZ

### Auditors

#### **Deloitte LLP**

P.O. Box 137  
Regency Court  
Gategny Esplanade  
St. Peter Port  
Guernsey  
GY1 3HW

### Registrar

#### **Link Market Services (Guernsey)**

#### **Limited (Previously known as Capita Registrars (Guernsey) Limited)**

Mont Crevelt House  
Bulwer Avenue  
St Sampson  
Guernsey  
GY2 4LH

### Investor Relations Consultancy

#### **Capital Access Group**

Sky Light City Tower  
50 Basinghall Street  
London  
EC2V 5DE



Carrée Seestraße , Berlin

# Group Financial statements



## INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SUMMIT PROPERTIES LIMITED

### Report on the audit of the financial statements

#### Opinion

**In our opinion the financial statements of Summit Properties Limited (formerly Summit Germany Limited) and its subsidiaries (together 'the Group'):**

- **give a true and fair view of the state of the Group's affairs as at 31 December 2018 and of the Group's profit for the year then ended;**
- **have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union; and**
- **have been prepared in accordance with the requirements of the Companies (Guernsey) Law, 2008.**

We have audited the financial statements of the 'Group' which comprise:

- the consolidated statement of financial position;
- the consolidated statement of comprehensive income
- the consolidated statement of changes in equity;
- the consolidated statement of cash flows; and
- the related notes 1 to 26.



The financial reporting framework that has been applied in their preparation is applicable law and IFRSs as adopted by the European Union.

#### 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 Financial Reporting Council's (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.

#### Summary of our audit approach

<b>Key audit matters</b>	<p>The key audit matters that we identified in the current year were:</p> <ul style="list-style-type: none"><li>• Valuation of investment properties; and</li><li>• Accounting for business combinations/asset acquisitions</li></ul> <p>Within this report, any new key audit matters are identified with  and any key audit matters which are the same as the prior year identified with .</p>
<b>Materiality</b>	<p>The materiality that we used for the group financial statements in the current year was €7.6 million which was determined on the basis of net assets, representing approximately 0.9% of this benchmark.</p>
<b>Scoping</b>	<p>We designed our audit by obtaining an understanding of the Group and its environment, including Group wide controls, determining materiality and assessing the risks of material misstatement in the consolidated financial statements.</p> <p>We focused our group audit scope on the three major components (Summit Properties Limited, Deutsche Real Estate AG and GxP German Properties AG) which were subject to full scope audit. These components accounted for 100% of the Group's net assets and 100% of the Group revenues for the year.</p>

## Significant changes in our approach

Last year our audit report included a key audit matter relating to revenue recognition. This is not included in the current year as the key audit matter related to rental income recognition is addressed as an input to the estimation uncertainty in the valuation of investment property which remains as a key audit matter.

Accounting for business combinations/asset acquisitions is a new key audit matter as the Group as these represent significant transactions for the Group and involve critical judgements when determining the appropriate accounting treatment.

As a result of the acquisition of GxP German Properties AG in the year, a full scope audit has also been performed in respect of this major component.

## Conclusions relating to going concern

We are required by ISAs (UK) to report in respect of the following matters where:

- the directors' use of the going concern basis of accounting in 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.

**We have nothing to report in respect of these matters.**

## Key audit matters

Key audit matters are those matters that, in our professional judgement, 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) that we identified. These matters included 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.

These matters were 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 these matters.

## Valuation of investment properties

### Key audit matter description



The value of investment properties as of 31 December 2018 totals €1,488.9 million (2017: €938.9 million) or 95.1% (2017: 88.9%) of the total assets of the Group, with revaluation movements in the year representing €296.8 million (2017: €88.0 million) of the overall increase in the balance.

Investment properties of the Group are valued using an income capitalisation model. Management is required to make a number of significant assumptions and judgements in determining the fair value and therefore we have identified this as a potential fraud risk.

The key inputs into the fair value model which are subject to significant management estimates include market yields, market rents, occupancy and lease terms. Unreasonable assumptions could give rise to a material misstatement.

The valuation of investment properties is disclosed as one of the key sources of estimation uncertainty in notes 3 and 5 of the financial statements and is further described in the 'Significant accounting matters' section of the Audit Committee Report.

## How the scope of our audit responded to the key audit matter



To respond to the key audit matter, we have performed the following audit procedures:

- Assessed the design and implementation of internal controls related to the valuation of investment properties;
- Obtained and reviewed valuation reports prepared by Savills, the Group's valuers and reconciled these with the amounts recorded in the financial statements;
- We specifically considered whether there were any indicators of bias in the assumptions adopted whilst performing the procedures included below, together with an assessment of the objectivity and independence of the independent valuer;
- Held discussions with the valuers to understand key market trends and significant movement in valuations;
- Challenged the key assumptions and judgements made by involving valuations specialists as part of our audit team;
- Benchmarked yield assumptions used by the valuers in performing their valuations against other available market data;
- Reviewed the portfolios' performance during the year against previous income projections (retrospective review);
- Tested the completeness and validity of the key information underlying the valuation reports by conducting analytical reviews, agreeing inputs to available independent market data and testing of rent agreements compared to income assumptions;
- Reviewed disclosures in the financial statements; and
- Reviewed events after the end of the reporting period.

## Key observations



Overall, we concluded that the assumptions applied in arriving at the fair value of the Group's investment properties were appropriate. We also concluded that management's disclosures in note 5B, describing the range of estimates applied, were appropriate.

## Accounting for business combinations/asset acquisitions

### Key audit matter description



During the year, the Group acquired an initial interest of 72.2% of GxP German Properties AG ("GxP"). GxP is a company listed on the Frankfurt Stock Exchange that owns a €167m portfolio of 12 commercial office assets. This represents a significant transaction for the Group which was made for cash consideration €45.7 million.

During the year, the Group also acquired a portfolio of properties for €33.5 million.

Judgement is required to determine whether the transactions represent the acquisition of a group of assets, or a business combination within the scope of IFRS 3 *Business Combinations*.

Note 3 describes the critical accounting judgements and note 23 sets out the details of the transactions. These acquisitions are also considered in the 'Significant accounting matters' section of the Audit Committee Report.

### How the scope of our audit responded to the key audit matter



To respond to the key audit matter, we have performed the following audit procedures:

- We evaluated the design and the implementation of key controls around the processing of the transaction;
- We obtained, reviewed and challenged management's analysis as to whether each transaction constitutes a business combination under IFRS 3 or an asset acquisition;
- We examined relevant documents including the sale and purchase agreement to confirm particulars of the acquisition, including a review of conditions attached to each transaction in order to consider the impact on the financial statements;
- We verified the valuation estimates and the inputs to the recognition of €nil goodwill and €nil gain on bargain purchase for business combination transactions; and
- We reviewed the disclosures provided in the financial statements regarding the acquisitions to assess whether they are in line with the specific disclosure requirements.

### Key observations



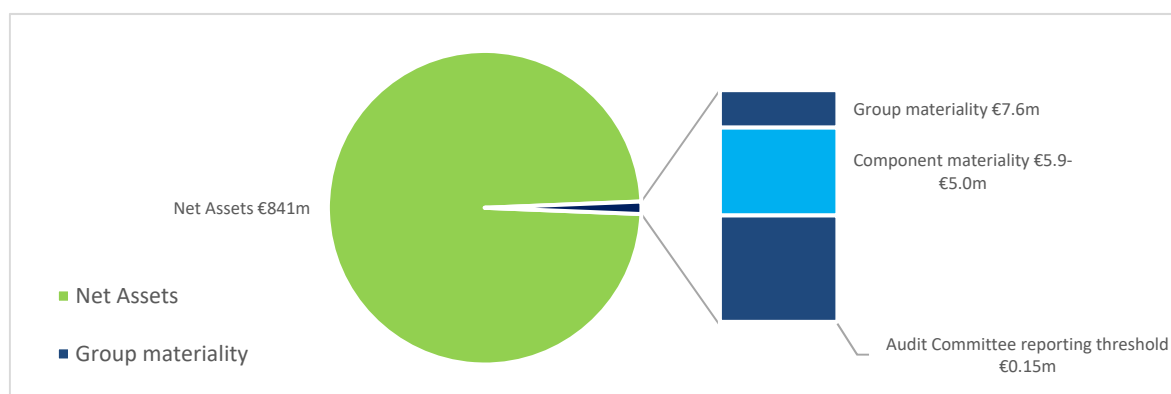
We have concluded that the analysis of the transaction conducted by management, which identifies that the GxP acquisition should be accounted for as a business combination, was consistent with the principles of IFRS 3. We have also concluded the other significant portfolio of properties acquired has been appropriately treated as an asset acquisition.

### Our application of materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

<b>Group materiality</b>	€7.6 million (2017: €7.2 million)
<b>Basis for determining materiality</b>	Approximately 0.9% of net assets (2017: 1.3%)
<b>Rationale for the benchmark applied</b>	We selected net assets as the basis for determining materiality because, in our view, this measure represents the performance of the group and is one of the indicators against which the Group is commonly assessed, given the industry in which it operates and given the volatility of profit before tax.



We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of €0.15 million (2017: €0.14 million), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

## An overview of the scope of our audit

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We designed our audit by obtaining an understanding of the Group and its environment, including Group wide controls, determining materiality and assessing the risks of material misstatement in the consolidated financial statements. Based on the above, we focused our group audit on Summit Properties Limited, Deutsche Real Estate AG and GxP German Properties AG as key components which were subject to full scope audits by the Group engagement team. These components represent 100% of the consolidated net assets and 100% of the consolidated revenues. The audit work at these components was executed at a materiality of €5.9 million - €5.0 million, which was lower than the Group materiality. All work was performed by the group audit team.

At the parent entity level, we tested the consolidation process and carried out analytical procedures to corroborate our conclusion that there were no significant risks of material misstatement in the aggregated financial information of the remaining components not subject to a full scope audit.

## Other information

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The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon.

***We have nothing to report in respect of these matters.***

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

In connection with our audit of the 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.

## Responsibilities of directors

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As explained more fully in the directors' responsibilities statement, 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

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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 FRC's website at: [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditor's report.

## Report on other legal and regulatory requirements

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

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#### *Adequacy of explanations received and accounting records*

Under the Companies (Guernsey) Law, 2008 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- proper accounting records have not been kept; or
- the financial statements are not in agreement with the accounting records.

***We have nothing to report in respect of these matters.***

### Use of our report

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This report is made solely to the 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 company's members those matters we are required to state to them 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 company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

#### **David Becker**

For and on behalf of Deloitte LLP  
Recognised Auditor  
St Peter Port, Guernsey  
17 April 2019

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**

<b>As of 31 December</b>		<b>2018</b>	<b>2017</b>
	<i>Note</i>	<i>Euro (in thousands)</i>	
<b>ASSETS</b>			
<b>NON-CURRENT ASSETS:</b>			
Investment properties	5	1,488,967	938,863
Other long-term assets	6	27,013	28,504
Deferred tax assets	17	391	699
Properties for development	22	5,125	-
Total non-current assets		<u>1,521,496</u>	<u>968,066</u>
<b>CURRENT ASSETS:</b>			
Inventory of buildings under construction	21a	2,736	-
Prepaid expenses and other current assets	9	15,941	65,069
Contract assets	21b	3,643	-
Receivables from related parties	13	177	184
Trade receivables, net	8	2,745	1,021
Cash and cash equivalents	10	19,525	22,715
Total current assets		<u>44,767</u>	<u>88,989</u>
Total assets		<u>1,566,263</u>	<u>1,057,055</u>

The accompanying notes are an integral part of the consolidated financial statements.

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**

<b>As of 31 December</b>		<b>2018</b>	<b>2017</b>
	<i>Note</i>	<i>Euro (in thousands)</i>	
<b>EQUITY AND LIABILITIES</b>			
<b>EQUITY:</b>	<b>11</b>		
Share capital		(*) -	(*) -
Other reserve		348,775	370,553
Retained gain		433,194	162,748
Equity attributable to the owners of the Company		781,969	533,301
Non-controlling interests		59,319	32,791
Total equity		841,288	566,092
<b>NON-CURRENT LIABILITIES:</b>			
Interest-bearing loans and borrowings	7	576,789	374,921
Other long-term financial liabilities	6	2,519	3,256
Derivative financial liabilities	18	965	3,063
Deferred tax liability	17	83,503	35,369
Total non-current liabilities		663,776	416,609
<b>CURRENT LIABILITIES:</b>			
Interest-bearing loans and borrowings	7	26,299	34,584
Derivative financial liabilities	18	-	1,885
Payables to related parties	13	2,548	3,998
Current tax liabilities		1,576	1,690
Trade and other payables	14	30,776	32,197
Total current liabilities		61,199	74,354
Total liabilities		724,975	490,963
Total equity and liabilities		1,566,263	1,057,055
NAV/Share (cent)	11	171.00	114.59
EPRA NAV/Share (cent)	11	189.39	123.10

(\*) No par value.

The accompanying notes are an integral part of the consolidated financial statements.

17 April, 2019

Date of approval of the  
financial statementsZohar Levy  
Managing DirectorItay Barlev  
Finance Director

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**

<b>For The Year ended 31 December</b>		<b>2018</b>	<b>2017</b>
	<i>Note</i>	<i>Euro (in thousands)</i>	
Rental income		67,376	60,522
Revenues from sale of apartments		9,905	-
Operating expenses		(5,390)	(4,743)
Cost of sale of apartments		(7,096)	-
Gross profit		64,795	55,779
General and administrative expenses	15	(9,258)	(7,760)
Fair value adjustments of investment properties	5	296,840	87,984
Other (expenses) income	5d2	(7,489)	10,025
Operating profit		344,888	146,028
Financial income	16	3,051	2,297
Financial expenses	16	(13,718)	(19,652)
Total financial expenses		(10,667)	(17,355)
Profit before taxes on income		334,221	128,673
Tax expenses	17	(44,639)	(15,684)
<b>Profit for the year</b>		<b>289,582</b>	<b>112,989</b>
<b>Other comprehensive income and expenses:</b>			
Items that may be reclassified subsequently to profit or loss:			
Reclassification to profit and loss of ineffective hedging reserve, net		223	265
Reclassification to profit and loss of hedging reserve, net		1,573	-
Changes in hedging instruments entered into for cash flow hedges		-	2,378
		1,796	2,643
Items that will not be reclassified subsequently to profit or loss:			
Net gain arising on revaluation of financial assets through OCI		-	337
<b>Total comprehensive income for the year</b>		<b>291,378</b>	<b>115,969</b>
<b>Profit for the year attributable to:</b>			
Owners of the Company		263,330	100,697
Non-controlling interests		26,252	12,292
		289,582	112,989
<b>Total comprehensive income attributable to:</b>			
Owners of the Company		265,022	103,181
Non-controlling interests		26,356	12,788
		291,378	115,969
<b>Earnings Per Share:</b>			
Basic (Euro per share)	12	0.566	0.216
Diluted (Euro per share)		0.566	0.216

The accompanying notes are an integral part of the consolidated financial statements.

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**

	Issued capital (Note 11)	Other Reserves (Note 11)	Retained Earnings	Total equity attributable to owners of the parent Company	Non- Controlling interests	Total equity
	<i>Euro (in thousands)</i>					
<b>Balance at 1 January 2017</b>	(*) -	<b>377,378</b>	<b>60,514</b>	<b>437,892</b>	<b>21,787</b>	<b>459,679</b>
Profit for the year	-	-	100,697	100,697	12,292	112,989
Other comprehensive loss for the year, net of income tax	-	2,483	-	2,483	496	2,979
<b>Total comprehensive profit</b>	-	<b>2,483</b>	<b>100,697</b>	<b>103,180</b>	<b>12,788</b>	<b>115,968</b>
Dividend distribution (Note 11c)	-	(9,308)	-	(9,308)	-	(9,308)
Additional non-controlling interest on acquisition of subsidiary	-	-	1,537	1,537	(1,784)	(247)
<b>Balance at 31 December 2017</b>	(*) -	<b>370,553</b>	<b>162,748</b>	<b>533,301</b>	<b>32,791</b>	<b>566,092</b>
Profit for the year	-	-	263,330	263,330	26,252	289,582
Other comprehensive profit for the year, net of income tax	-	1,692	-	1,692	104	1,796
<b>Total comprehensive profit</b>	-	<b>1,692</b>	<b>263,330</b>	<b>265,022</b>	<b>26,356</b>	<b>291,378</b>
Dividend distribution (Note 11c)	-	(13,970)	-	(13,970)	-	(13,970)
Buy back of shares (Note 11g)	-	(9,500)	-	(9,500)	-	(9,500)
Acquisition of non-controlling interest (Note 24b)	-	-	7,116	7,116	(18,405)	(11,289)
Additional non-controlling interest on acquisition of subsidiary (see Note 24)	-	-	-	-	18,577	18,577
<b>Balance at 31 December 2018</b>	(*) -	<b>348,775</b>	<b>433,194</b>	<b>781,969</b>	<b>59,319</b>	<b>841,288</b>

(\*) No par value.

The accompanying notes are an integral part of the consolidated financial statements



**CONSOLIDATED STATEMENT OF CASH FLOWS****For The Year ended 31 December****2018****2017***Euro (in thousands)*

<b>Cash flows from operating activities:</b>		
Profit for the year	289,582	112,989
Adjustments for:		
Deferred taxes	43,324	13,821
Gain from Sale of subsidiaries property	-	(10,283)
Financial expenses, net	10,667	17,355
Fair value adjustment of investment properties	(296,840)	(87,984)
Depreciation of property, plant and equipment	86	31
Amortisation and impairment of intangible assets	39	45
Other long term Assets	(363)	-
	<u>(243,087)</u>	<u>(67,015)</u>
<b>Changes in operating assets and liabilities:</b>		
(Increase) decrease in trade receivables	(4,523)	340
Increase (decrease) in trade and other payables	4,129	(214)
Increase (decrease) in payables to related parties and shareholders	735	(1,337)
Decrease in inventors of buildings under construction	264	-
Decrease in prepaid expenses and other current assets	321	1,414
Increase (decrease) in other non-current liabilities	127	(118)
	<u>1,053</u>	<u>85</u>
<b>Net cash flows from operating activities</b>	<u>47,548</u>	<u>46,059</u>
<b>Cash flows from investing activities:</b>		
Payments for property, plant and equipment	(71)	(1,150)
Net cash outflow on acquisition of asset and liabilities	(31,942)	(25,967)
Net cash outflow on business combination	(44,066)	-
Change in deposits	139	1,945
Decrease in loan to third party	(1,624)	(11,624)
Additions to investment properties	(11,615)	(13,712)
Proceeds from sale of investment property	54,867	17,560
Interest income received	9	1,129
<b>Net cash flows used in investing activities</b>	<u>(34,303)</u>	<u>(31,819)</u>
<b>Cash flows from financing activities:</b>		
Proceeds from borrowings from banks	300,000	-
(Repayment of) proceeds from borrowings from related parties	(22,738)	19,751
Repayment of borrowings	(235,274)	(43,895)
Finance expense paid	(13,471)	-
Interest expense paid	(10,193)	(11,102)
Net cash outflow on acquisition of non-controlling interest	(11,289)	(1,129)
Buy back of shares	(9,500)	-
Dividend distribution	(13,970)	(9,308)
<b>Net cash flows use financing activities</b>	<u>(16,435)</u>	<u>(45,683)</u>
 Decrease in cash and cash equivalents	 (3,190)	 (31,443)
Cash and cash equivalents at beginning of the year	22,715	54,158
Cash and cash equivalents at end of the year	<u>19,525</u>	<u>22,715</u>

The accompanying notes are an integral part of the consolidated financial statements.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER, 2018**

**NOTE 1: GENERAL**

Summit Properties Ltd. (the “Company”) and its subsidiaries (together: the “Group”) is a German property specialist company. The Company was incorporated and registered in Guernsey on 19 April, 2006. The parent company of the Group is Summit Real Estate Holdings Ltd (hereinafter: “SHL”), a company registered in Israel.

The Group owns, enhances and operates commercial real estate assets in Germany including office buildings, logistic centres and others, which are leased to numerous commercial and industrial tenants. The Group invests primarily in such properties that provide substantial income flows and potential for value increase through asset management. The Group does not acquire properties for speculative purposes.

**NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Basis of preparation**

These Consolidated Financial Statements have been prepared under a Going Concern basis after management and the Board of Directors carefully considered relevant factors underlying the Group's financial position at the reporting date, its equity, working capital and expected cash flow from operation, and is satisfied as to the ability of the Company to meet all of its short term obligations. Further, €29 million interest bearing loan were agreed and signed and will be received after the balance sheet date, replacing a current interest bearing loan. This, and expected substantial free cash from operations would cover the net current liabilities and more.

The consolidated financial statements have been prepared on the historical cost basis except for investment properties and financial instruments that are measured at revalued amounts or fair values at the end of each reporting period, as explained in the accounting policies below.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for leasing transactions that are within the scope of IAS 17, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in IAS 2 or value in use in IAS 36.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER, 2018**

**NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)**

**Basis of preparation (Cont.)**

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

Reportable segments: up until 2017, the Group had single reportable segment, being commercial real estate in Germany, which included leasing activities of the Group. From 2018, the Group started to undertake activities relating to the development and sale of residential units and as such now presents two separate segments (see note 23).

**Statement of compliance:**

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as adopted in the European Union ("IFRS").

**Basis of consolidation:**

The consolidated financial statements comprise the financial statements of the Company and entities controlled by the Company (and its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

Consolidation of a subsidiary begins when the Company obtains control over the subsidiary and ceases when the Company loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Company gains control until the date when the Company ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

The results of subsidiaries are included in the consolidated statements of comprehensive income from the effective date of acquisition and up to the effective date of disposal, as appropriate.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER, 2018**

**NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)**

**Basis of consolidation: (Cont.)**

All intra-group balances and transactions are eliminated in full on consolidation.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

Non-controlling interests in subsidiaries are identified separately from the Group's equity therein. Those interests of non-controlling shareholders that are present ownership interests entitling their holders to a proportionate share of net assets upon liquidation may initially be measured at fair value or at the non-controlling interests' proportionate share of the fair value of the acquiree's identifiable net assets. The choice of measurement is made on an acquisition-by-acquisition basis. Other non-controlling interests are initially measured at fair value. Subsequent to acquisition, the carrying amount of non-controlling interests is the amount of those interests at initial recognition plus the non-controlling interests' share of subsequent changes in equity. Total comprehensive income is attributed to non-controlling interests even if this results in the non-controlling interests having a deficit balance.

Changes in the Group's interests in subsidiaries that do not result in a loss of control are accounted for as equity transactions. The carrying amount of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to the owners of the Company.

**Business combinations:**

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interest issued by the Group in exchange for control of the acquiree. Acquisition-related costs are recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value at the acquisition date, except that deferred tax assets or liabilities are recognised and measured in accordance with IAS 12 Income Taxes.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after reassessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER, 2018**

**NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)**

**Business combinations: (Cont.)**

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete.

Those provisional amounts are adjusted during the measurement period (see above), or additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed as of the acquisition date that, if known, would have affected the amounts recognised as of that date.

**Revenue recognition:**

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable, excluding discounts, rebates, and similar allowances. The following specific recognition criteria must also be met before revenue is recognised:

Rental income:

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease in accordance with IAS 17. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight-line basis over the lease term.

Revenues from the sale of apartments:

The Group constructs and sells residential properties under long-term contracts with customers. Under the terms of the contracts, the Group is contractually restricted from redirecting the properties to another customer and has an enforceable right to payment for work done. Revenue from construction of residential properties is therefore recognised over time on a cost-to-cost method, i.e. based on the proportion of contract costs incurred for work performed to date relative to the estimated total contract costs. The Group considers that this method is an appropriate measure of the progress towards completion of these performance obligations under IFRS 15.

Interest income:

Interest revenue is recognised when it is probable that the economic benefits will flow to the Group and the amount of revenue can be measured reliably. Interest revenue is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Interest income is presented in finance revenue in the statement of comprehensive income.



**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER, 2018**

**NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)**

**Foreign currencies:**

In preparing the financial statements of the individual entities, transactions in currencies other than the entity's functional currency, which is Euro, are recognised at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated 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 retranslated.

Exchange differences are recognised in profit or loss in the period in which they arise.

**Taxes:**

Income tax expense represents the sum of tax currently payable and deferred tax.

Current Taxes:

Current tax is provided at amounts expected to be paid (or recovered) using the applicable tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

Deferred tax:

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period 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.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER, 2018**

**NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)**

**Taxes: (Cont.)**

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

**Financial instruments**

**Financial assets**

Financial assets and financial liabilities are recognised in the Group's statement of financial position when the Group becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

All recognised financial assets are measured subsequently in their entirety at either amortised cost or fair value, depending on the classification of the financial assets.

Financial assets and Debt instruments that meet the following conditions are measured subsequently at amortised cost:

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Debt instruments that are held within a business model whose objective is both to collect the contractual cash flows and to sell the debt instruments, and that have contractual cash flows that are solely payments of principal and interest on the principal amount outstanding, are measured subsequently at fair value through other comprehensive income (FVTOCI);

By default, all other financial assets are measured subsequently at fair value through profit or loss (FVTPL).

*(i) Amortised cost and effective interest method*

The amortised cost of a financial asset is the amount used to measure it upon initial recognition less principal payments, by adding or subtracting the accumulated amortisation, using the effective interest method of any difference between the initial amount and the repayment amount, adjusted for any provision for loss.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER, 2018**

**NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)**

**Financial instruments (Cont.)**

**Financial assets (Cont.)**

The effective interest method is used to calculate amortised costs of debt instruments and to allocate and recognise interest income in profit or loss over the relevant period.

Interest income is calculated using the effective interest method. The calculation is made by applying the effective interest rate to the gross carrying amount of the financial asset, excluding the following:

- For credit impaired purchased or created financial assets from the date of initial recognition, the Group applies the effective interest rate adapted to the credit risk to the financial asset's amortised cost.
- For purchased or created financial assets which were not originally credit impaired but later became such, the Group applies the effective interest rate to the financial asset's amortised cost (less a provision for expected credit losses) in subsequent reporting periods. If in subsequent reporting periods the financial instrument's credit risk improves whereby the asset is no longer credit impaired, the Group calculates the interest income in subsequent periods by applying the effective interest rate to the gross carrying amount.

*(ii) Equity instruments designated as at FVTOCI*

On initial recognition, the Group may make an irrevocable election (on an instrument-by-instrument basis) to designate investments in equity instruments at FVTOCI. Designation at FVTOCI is not permitted if the equity investment is held for trading or if it is contingent consideration recognised by an acquirer in a business combination.

A financial asset is held for trading if:

- It has been acquired principally for the purpose of selling it in the near term; or
- On initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and has evidence of a recent actual pattern of short-term profit-taking; or
- It is a derivative (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument).

Investments in equity instruments at FVTOCI are initially measured at fair value plus transaction costs. Subsequently, they are measured at fair value with gains and losses arising from changes in fair value recognised in other comprehensive income and accumulated in the investments revaluation reserve. The cumulative gain or loss is not reclassified to profit or loss on disposal of the equity investments, instead, it is transferred to retained earnings.

Dividends from these investments in equity instruments are recognised in profit or loss in accordance with IFRS 9, unless the dividends clearly represent a recovery of part of the cost of the investment.

The Group has designated all investments in equity instruments that are not held for trading as FVTOCI on initial application of IFRS 9.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER, 2018**

**NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)**

**Financial instruments (Cont.)**

**Financial assets (Cont.)**

**Impairment of financial assets**

In relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model as opposed to an incurred credit loss model under IAS 39. The expected credit loss model requires the Group to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition of the financial assets. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.

Trade receivables, which generally have 30-90 days' terms, are recognised and carried at original invoice amount less an allowance for any uncollectible amounts. Provision is made when there is objective evidence that the Group will not be able to collect the debts. Bad debts are written off when identified. The Group applies the simplified approach and recognises lifetime ECL for these assets.

**Derecognition of financial assets**

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

**Financial liabilities and equity**

**Classification as debt or equity**

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

**Equity instruments**

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Group are recognised at the proceeds received, net of direct issue costs.

**Financial liabilities**

Financial liabilities are presented and measured at amortised cost.

Financial liabilities are initially recognised at fair value less transaction costs. After initial recognition, these financial liabilities are measured at amortised cost using the effective interest method. The effective interest method calculates the amortised cost of a financial liability and of attributing interest costs over the relevant credit term. The effective interest rate accurately discounts the expected future cash flows over the expected life of the financial liability to its carrying amount, or, if applicable, to a shorter term.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER, 2018**

**NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)**

**Financial liabilities and equity (Cont.)**

**Derecognition of financial liabilities**

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

When the Group exchanges with the existing lender one debt instrument into another one with the substantially different terms, such exchange is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. Similarly, the Group accounts for substantial modification of terms of an existing liability or part of it as an extinguishment of the original financial liability and the recognition of a new liability. It is assumed that the terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective rate is at least 10 per cent different from the discounted present value of the remaining cash flows of the original financial liability. If the modification is not substantial, the difference between: (1) the carrying amount of the liability before the modification; and (2) the present value of the cash flows after modification should be recognised in profit or loss as the modification gain or loss within other gains and losses.

**Derivative financial instruments**

The Group enters into a variety of derivative financial instruments to manage its exposure to interest rate and foreign exchange rate risks, including foreign exchange forward contracts, options and interest rate swaps.

Further details of derivative financial instruments are disclosed in notes 18.

Derivatives are recognised initially at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at each reporting date. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

A derivative with a positive fair value is recognised as a financial asset whereas a derivative with a negative fair value is recognised as a financial liability. Derivatives are not offset in the financial statements unless the Group has both legal right and intention to offset. A derivative is presented as a non-current asset or a non-current liability if the remaining maturity of the instrument is more than 12 months and it is not expected to be realised or settled within 12 months.

Other derivatives are presented as current assets or current liabilities.



**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER, 2018**

**NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)**

**Derivative financial instruments (Cont.)**

**Cash flow hedges**

The effective portion of changes in the fair value of derivatives and other qualifying hedging instruments that are designated and qualify as cash flow hedges is recognised in other comprehensive income and accumulated under the heading of cash flow hedging reserve, limited to the cumulative change in fair value of the hedged item from inception of the hedge. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss, and is included in the 'other gains and losses' line item.

Amounts previously recognised in other comprehensive income and accumulated in equity are reclassified to profit or loss in the periods when the hedged item affects profit or loss, in the same line as the recognised hedged item.

However, when the hedged forecast transaction results in the recognition of a non-financial asset or a non-financial liability, the gains and losses previously recognised in other comprehensive income and accumulated in equity are removed from equity and included in the initial measurement of the cost of the non-financial asset or non-financial liability. This transfer does not affect other comprehensive income. Furthermore, if the Group expects that some or all of the loss accumulated in the cash flow hedging reserve will not be recovered in the future, that amount is immediately reclassified to profit or loss.

The Group discontinues hedge accounting only when the hedging relationship (or a part thereof) ceases to meet the qualifying criteria (after rebalancing, if applicable). This includes instances when the hedging instrument expires or is sold, terminated or exercised. The discontinuation is accounted for prospectively. Any gain or loss recognised in other comprehensive income and accumulated in cash flow hedge reserve at that time remains in equity and is reclassified to profit or loss when the forecast transaction occurs. When a forecast transaction is no longer expected to occur, the gain or loss accumulated in cash flow hedge reserve is reclassified immediately to profit or loss.

**Investment properties**

Investment property, which is property held to earn rentals and/or for capital appreciation (including property under construction for such purposes), is measured initially at cost, including transaction costs. Subsequent to initial recognition, investment property is measured at fair value. All of the Group's property interests held under operating leases to earn rentals or for capital appreciation purposes are accounted for as investment properties and are measured using the fair value model. Gains or losses arising from changes in the fair value of investment property are included in profit or loss in the period in which they arise.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from the disposal. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the period in which the property is derecognised.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER, 2018**

**NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)**

**Inventory of buildings under construction and properties for development:**

Inventory of buildings under construction and properties for development are measured at the lower of cost or net realisable value. Net realisable value is the estimated selling price in the ordinary course of business less estimated costs of completion and the estimated selling costs.

Cost of inventories of apartments under construction and inventories of real estate comprises identifiable direct costs of land such as taxes, fees and duties and construction costs.

**Impairment of assets:**

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount.

**Cash and short-term deposits:**

Cash and short-term deposits in the balance sheet comprise cash at banks and on hand and short-term deposits with an original maturity of three months or less.

**Provisions:**

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Group expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the consolidated statement of comprehensive income net of any reimbursement. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

**NOTE 3: CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY**

In the application of Group's accounting policies which are described in Note 2 above, management is required to make judgements, estimates and assumptions that affect the reported amounts of assets and liabilities that are not readily apparent from other sources. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER, 2018**

**NOTE 3: CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (Cont.)**

**Key sources of estimation uncertainty:**

The key assumptions concerning the future and other key sources of estimation uncertainty at the consolidated statement of financial position date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

- **Valuation of investment properties:**

The Group carries its investment properties at fair value, with changes in fair values being recognised in the profit or loss. The Group engages independent valuation specialists to determine fair value of investment properties on an annual basis. The valuation technique used to determine fair value of investment properties is based on a discounted cash flow model as well as comparable market data.

The determined fair value of the investment properties is sensitive to the estimated yield as well as market rents and the long term vacancy rate. The key assumptions used to determine the fair value of the investment properties are further explained in Note 5.

- **Taxation**

Uncertainties might exist with respect to the interpretation of complex tax regulations, changes in tax laws, and the amount and timing of future taxable income. Given the Group's international business relationships and the nature of contractual agreements, differences arising between the actual results and the assumptions made, or future changes to such assumptions, could necessitate future adjustments to tax income and expense already recorded.

Deferred taxes

Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and the level of future taxable profits. (See also Note 17).

**Critical accounting judgements:**

- **Business combination or acquisition of assets**

In respect with the transactions detailed in Note 5, the Group management and the Directors have reviewed the characteristics of the transactions in accordance with the requirements of IFRS 3(R). When reaching a conclusion regarding applying appropriate accounting treatment, the Directors consider obtaining control over the purchased entities, the characteristic of the purchased entities and the existence of business processes inherent in these entities. Consequently, regarding the acquisition of interests` of GXP German Properties AG, the Directors consider that the transaction meets the criteria of business combination, while the acquisition of a portfolio of eight commercial properties in October 2018 was considered as an acquisition of assets and liabilities rather than business combination, although control over corporate entities was gained as a result of the transaction, these entities were special purpose vehicles for holding properties rather than separate business entities – this judgement was made mainly due to the absence of business processes inherent in these entities.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER, 2018**

**NOTE 4: ADOPTION OF NEW AND REVISED STANDARDS AND INTERPRETATIONS**

**New and amended IFRS Standards that are effective for the current year**

**Impact of initial application of IFRS 9 *Financial Instruments***

In the current year, the Group has applied IFRS 9 *Financial Instruments* (as revised in July 2014) and the related consequential amendments to other IFRS standards that are effective for an annual period that begins on or after 1 January 2018. See note 2 for accounting policies of financial instruments under IFRS 9.

The transition provisions of IFRS 9 allow an entity not to restate comparatives.

The Group has applied IFRS 9 in accordance with the transition provisions set out in IFRS 9.

The application of IFRS 9 has had no material impact on the consolidated cash flows of the Group.

Loans to third parties given to finance residential construction projects in Berlin, which were classified as long-term loans receivable at amortised cost, are now measured at fair value through profit and loss. Fair Value was equivalent to amortised cost and hence there was no material change on implementation.

Unquoted equity shares which were classified as available for sale investments are now classified as financial assets through OCI.

The Group set up an Expected Credit Loss reserve, which is not material. There were no changes of measurement and classification of other financial instruments.

**Impact of application of IFRS 15 *Revenue from Contracts with Customers***

In the current year, the Group has applied IFRS 15 *Revenue from Contracts with Customers* (as amended in April 2016) which is effective for an annual period that begins on or after 1 January 2018. IFRS 15 introduced a 5-step approach to revenue recognition. Far more prescriptive guidance has been added in IFRS 15 to deal with specific scenarios.

The Group's accounting policies for its revenue streams are disclosed in detail in note 2 above. Apart from providing more extensive disclosures for the Group's revenue transactions, the application of IFRS 15 did not have a significant impact on the financial position and/or financial performance of the Group.

In the current year, the Group has applied a number of amendments to IFRS Standards and Interpretations issued by the International Accounting Standards Board (IASB) that are effective for an annual period that begins on or after 1 January 2018. Their adoption has not had any material impact on the disclosures or on the amounts reported in these financial statements.

**IAS 40 (amendments) *Transfers of Investment Property***

The Group has adopted the amendments to IAS 40 Investment Property for the first time in the current year. The amendments clarify that a transfer to, or from, investment property necessitates an assessment of whether a property meets, or has ceased to meet, the definition of investment property, supported by observable evidence that a change in use has occurred. The amendments further clarify that the situations listed in IAS 40 are not exhaustive and that a change in use is possible for properties under construction (i.e. a change in use is not limited to completed properties). This amendment did not have a significant effect on the financial statements.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER, 2018**

**NOTE 4: ADOPTION OF NEW AND REVISED STANDARDS AND INTERPRETATIONS (Cont.)**

**New and amended IFRS Standards that are effective for the current year (Cont.)**

**Amendments to References to the Conceptual Framework in IFRS Standards**

In 2018 the IASB issued a revised Framework which came into effect immediately. Five of the chapters are new, or have been revised substantially: Financial statements and the reporting entity; The elements of financial statements; Recognition and derecognition; Measurement; and Presentation and disclosure. It also reintroduces the terms stewardship and prudence

**New and revised IFRSs in issue but not yet effective**

**IFRS 16 Leases**

In January 2016, the IASB published IFRS 16 Leases. The new Standard supersedes IAS 17 Leases and its associated interpretative guidance.

IFRS 16 applies a control model to the identification of leases, distinguishing between leases and service contracts on the basis of whether there is an identified asset controlled by the customer.

IFRS 16 introduces significant changes to lessee accounting it removes the distinction between operating and finance leases under IAS 17 and requires a lessee to recognise a right-of-use asset and a lease liability at lease commencement for all leases, except for short-term leases and leases of low value assets.

IFRS 16 is effective for reporting periods beginning on or after 1 January 2019 with early application permitted for entities that apply IFRS 15 at or before the date of initial application of IFRS 16.

The Group does not expect that this standard will have a significant effect on its financial statements.

**Annual Improvements to IFRS Standards 2015–2017 Cycle *Amendments to IAS 12 Income Taxes***

The amendments clarify that an entity should recognise the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where the entity originally recognised the transactions that generated the distributable profits. This is the case irrespective of whether different tax rates apply to distributed and undistributed profits.

**IFRIC 23 *Uncertainty over Income Tax Treatments***

IFRIC 23 sets out how to determine the accounting tax position when there is uncertainty over income tax treatments. The Interpretation requires an entity to:

- determine whether uncertain tax positions are assessed separately or as a group; and
- assess whether it is probable that a tax authority will accept an uncertain tax treatment used, or proposed to be used, by an entity in its income tax filings:
  - If yes, the entity should determine its accounting tax position consistently with the tax treatment used or planned to be used in its income tax filings.
  - If no, the entity should reflect the effect of uncertainty in determining its accounting tax position.



**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER, 2018**

**NOTE 4: ADOPTION OF NEW AND REVISED STANDARDS AND INTERPRETATIONS (Cont.)**

**New and revised IFRSs in issue but not yet effective (Cont.)**

***IFRIC 23 Uncertainty over Income Tax Treatments (Cont.)***

**IAS 1 Presentation of Financial Statements**

The IASB has amended the definition of material. This amendment is effective for annual periods beginning on or after 1 January 2020, with earlier application permitted.

References to the Conceptual Framework have been amended to refer to the new Framework. The amendment is effective for annual periods beginning on or after 1 January 2020, with earlier application permitted.

IAS 1 is also being reviewed by the IASB as part of the Disclosure Initiative and Primary Financial Statement projects.

**IFRS 3 Business Combinations**

Changes effective this year: Amendments to clarify that, when an entity gets control of a joint operation that is a business, any previously held interest is remeasured. Those amendments are effective for annual periods.

Pending changes: As a result of the Post Implementation Review of IFRS 3 the Standard has been amended for a revised definition of a business. This amendment will be effective for annual periods beginning on or after 1 January 2020, with earlier application permitted.

In addition, the IASB currently has a project on business combinations under common control.

**IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors**

The IASB has amended the definition of material. This amendment is effective for annual periods beginning on or after 1 January 2020, with earlier application permitted.

References to the Conceptual Framework have been amended to refer to the new Framework. The amendment is effective for annual periods beginning on or after 1 January 2020, with earlier application permitted.

The IASB has exposed possible changes to the definitions of an accounting policy and an accounting estimate, with the aim of clarifying the distinction.

The IASB has exposed possible changes to make it easier to apply a change in an accounting policy prospectively when they are motivated by an Agenda Decision.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER, 2018**

**NOTE 5: INVESTMENT PROPERTIES**

**A. Changes in years 2017 and 2018**

	<b>Euro in thousands</b>
Balance at 1 January 2017	795,579
Additions for the year	10,495
Additions from acquisition of assets and liabilities (C)	101,225
Disposals during the year (D)	(56,420)
Fair value adjustments during the year	87,984
Balance at 31 December 2017	<u>938,863</u>
Additions for the year	11,615
Additions from business combination (C)	167,149
Additions from acquisition of assets and liabilities (C)	85,000
Disposals during the year (D)	(3,500)
Reclassification to Inventory of buildings under construction	(3,000)
Reclassification to Properties for development	(4,000)
Fair value adjustments during the year	296,840
Balance at 31 December 2018	<u><u>1,488,967</u></u>

**B. Fair value measurement of investment properties (Level 3 classification)**

- The fair value of investment property is determined at least once a year or when indications of value changes arise, based on a valuation performed by independent reputable experts. This valuation has been conducted in the form of a full Valuation Report (hereinafter referred to as "Valuation Report") for the determination of Market Value carried out by Savills Advisory Services Germany GmbH & Co. KG. The valuation is in accordance with the RICS Valuation - Global Standards (July 2017) of the Royal Institution of Chartered Surveyors ("Red Book") and the International Standards for the Valuation of Real Estate for Investment Purposes ("International Valuation Standards").

The valuation is performed using the income capitalisation method, which is a valuation model based on the present value of expected Net Operating Income per property. Real estate valuations are based on the net annual cash flows after capitalisation on discounted rates that reflect the specific risks inherent in property activity.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER, 2018**

**NOTE 5: INVESTMENT PROPERTIES (Cont.)**

**B. Fair value measurement of investment properties (level 3 classification) (cont.)**

**1. (Cont.)**

The valuations consider the profile of the tenants which are legally committed to the lease agreement and the remaining economic life of the asset. The market rents used in the valuation vary per location, uses and condition of the property, age and level of finishing of various assets, even in the same building. Average rent in respect of office spaces can range from €5-20 per month per square meter (2017: €5-17); for retail properties, between €4-19 per month per square meter (2017: €4-30); for logistics properties between €2-12 per month per square meter (2017: €2-7). For office, commercial and logistics properties, discount rates range between 4 % - 8% (2017: 5.25 % -9.0 %).

In estimating the fair value of the properties, the highest and the best use of the properties is their current use.

A number of factors contribute to the value of retail properties, such as national and local economic development, investment demand created by property investors, and interest rates.

While changes in the fair value of investment properties have an effect on the Group's profit for the financial year, they do not have an immediate impact on cash flow.

The significant unobservable inputs used in the fair value measurement of the entity's investment properties are rents achieved at market (when these increase, an increase in properties value may occur), discount rates (when these increase, a decrease in properties value may occur) and occupancy rates (when these increase, an increase in property values may occur). Significant increases (decreases) in any of those inputs in isolation would result in a significantly lower (higher) fair value measurement. Sensitivity to change in the properties' fair value, or the risk associated with fair value, can be tested by altering the above key parameters. Furthermore, the effect of the change in each parameter is not necessarily similar – as such, changes in the rents and discount rates might have a more significant effect on the properties' value than similar change of the occupancy rates. In addition, it is noted that changes in different parameters might occur simultaneously. For example, a change in occupancy may connect to a change in market rents when they impact fair value simultaneously.

**2. Supplemental information**

**Lettable area**

	As 31 December 2018				As 31 December 2017			
	Offices	Logistic	Retail	Total	Offices	Logistic	Retail	Total
	Sqm				Sqm			
	658,183	341,609	67,313	1,067,105	557,642	289,957	67,166	914,765
Percent of total assets	62%	32%	6%	100%	61%	32%	7%	100%

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER, 2018**

**NOTE 5: INVESTMENT PROPERTIES (Cont.)**

**B. Fair value measurement of investment properties in Level 3 (Cont.)**

**2. Supplemental information (Cont.)**

**Fair value – analysis by use**

	As 31 December 2018				As 31 December 2017			
	Offices	Logistic	Retail	Total	Offices	Logistic	Retail	Total
	Euro in thousands				Euro in thousands			
	1,131,527	280,520	76,920	1,488,967	710,102	157,135	71,626	938,863
Percent of total assets	76%	19%	5%	100%	76%	17%	8%	100%

**NOI – analysis by use**

	As 31 December 2018					As 31 December 2017				
	Offices	Logistic	Retail	Other	Total	Offices	Logistic	Retail	Other	Total
	Euro in thousands					Euro in thousands				
	44,226	13,916	3,844	2,809	64,795	40,774	10,446	4,559	-	55,779
Percent of total assets	68%	22%	6%	4%	100%	73%	19%	8%	-	100%

**Adjustment to fair value – analysis by use**

	As 31 December 2018				As 31 December 2017			
	Offices	Logistic	Retail	Total	Offices	Logistic	Retail	Total
	Euro in thousands				Euro in thousands			
	253,158	38,567	5,115	296,840	74,415	8,136	5,433	87,984
Percent of total assets	85%	13%	2%	100%	85%	9%	6%	100%

**Average rent**

	Offices		Logistic		Retail	
			As 31 December			
	2018	2017	2018	2017	2018	2017
€/sqm/month	8.4	8.0	4.6	3.7	7.7	7.9
Range €	(5.0-20.0)	(4.9-17.3)	(2.2-12.3)	(2.2-7.1)	(4.2-18.8)	(3.9-30.5)

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER, 2018**

**NOTE 5: INVESTMENT PROPERTIES (Cont.)**

**C. Additions**

1. In June 2017, the Group completed an acquisition of a portfolio of commercial properties located in four different sites in the city of Wolfsburg, Germany, for a total purchase price of approximately €100 million.

The acquired portfolio has a lettable area of 80,000 sqm and is fully let, mainly to Volkswagen Group (approximately 60% of the lettable space through 15 different leases), as well as to other companies. The properties generate annual net rent of approximately €7.9 million.

The acquisition was carried out as a share deal transaction and the purchase price (net of liabilities of approximately €70 million) was financed by the Company's existing cash of approximately € 30 million.

2. In 2018, the Group completed acquisitions of 77.21% interest in GxP German Properties AG ("GxP"), a company listed on the Frankfurt stock exchange. The first acquisition was a 72.2% interest which was followed by additional acquisitions for a 5.01% interest, leading to a holding of 77.43% including acquisitions in January 2019. The acquisitions were financed by the Company's existing cash of approximately € 46 million.

GxP owns an office portfolio, located mainly in Frankfurt, Berlin and NRW. The portfolio consists of 12 properties, 89% let and generating net rental income of €10.8 million per annum at the date of acquisition.

The above was treated as a business combination and given that the acquisitions resulted in achieving control over GxP, the Group consolidates GxP in these financial statements. See note 24 for further details.

3. In October 2018, the Group acquired a portfolio of eight commercial properties. The total purchase price was €85 million. The acquired properties consist of 8 well located multi service centers mainly in Berlin, Frankfurt and Düsseldorf. The aggregate annual net rent from these properties is approximately €5.8 million. The purchase price, net of €51 million senior debt, was financed by the Company's existing cash of approximately € 34 million. The Company treated this acquisition as an acquisition of assets and liabilities and not a business combination (as no processes were acquired). See further details in note 24.

**D. Disposals**

1. During 2017, a subsidiary of the Group sold 18 properties with a carrying value of approximately €15.1 million for consideration similar to their carrying amount. €9.1 million of the purchase price was paid in cash and was mostly used to partially repay one of the Company's debt facilities. The remaining balance of the consideration is outstanding as a five-year loan to the purchaser (See 6(2)). The loan bears an average annual interest rate of 3% and is secured by a first rank mortgage over the sold properties and the shares of the companies in which they are held.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER, 2018**

**NOTE 5: INVESTMENT PROPERTIES (Cont.)**

**D. Disposals (Cont.)**

2. In December 2017, a subsidiary of the Group sold one of its properties for a consideration of €51.4 million, which was approximately €10 million higher than the value of the property as of 30 September 2017. The net proceeds (after repayment of the property loans) were approximately €30 million. These proceeds were received and the loan repaid during the reporting period. As a result of this transaction the Company recognised a capital gain of €10.4 million recorded in Other Income. In 2018, most of other expenses are one-time consulting expenses.
3. During 2018 the Group sold an asset for €3.5 million (consideration was similar to asset carrying amount).

**NOTE 6: OTHER LONG-TERM ASSETS AND LIABILITIES**

	<b>31 December</b>	
	<b>2018</b>	<b>2017</b>
	<b>Euro in thousands</b>	
<b>Other long-term financial assets:</b>		
Financial assets measured at fair value through OCI (1)	3,851	2,710
Long-term loans receivable measured at amortised costs (2)	11,786	8,996
Financial assets measured at fair value through profit and loss (3)	9,495	15,385
Other financial assets	1,622	1,286
Total long term financial assets	<u>26,754</u>	<u>28,377</u>
<b>Other long-term non-financial assets</b>	<u>259</u>	<u>127</u>
<b>Other long-term financial liabilities:</b>		
Other financial liabilities	<u>2,519</u>	<u>3,256</u>

(1) Financial assets – through OCI:

This represents investments in ordinary shares of several real estate companies. Group interests in these companies were not accounted for using the equity method because of lack of significant influence (the Group has neither voting rights, nor representation in the management of these companies). The fair value of the investments at the end of the reporting period is based on the market values of the respective companies' investments in real estate.

(2) Long-term loans receivable include mainly a loan of €5.8 million provided during 2017 to the purchaser of properties as detailed in note 5d1.

(3) The Group is engaged in agreements to provide financing to several residential construction projects in Berlin. The projects are for construction of residential units and are at different stages of planning and construction. The loans are secured by liens and guarantees of the construction companies and their shareholders, and will be payable from the projects' proceeds. The loans accrue an annual interest of 15%. As of the end of the reporting period, the fair value of the loans is €20.3 million (including short term loans).



**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER, 2018**

**NOTE 7: INTEREST - BEARING LOANS AND BORROWING**

**Interest-bearing loans and borrowings (net of cost of raising loans):**

	Effective interest rate	Maturity	31 December	
	%		2018	2017
			Euro in thousands	
<b>Current:</b>				
Current maturities of long term loans	1.38-2.6	2019	26,299	34,584
<b>Non-current:</b>				
Long term loans and borrowings	1.38-2.6	2020-2026	576,789	374,921

**A.** In June 2017, the Group acquired a portfolio of properties – as detailed in note 5c above. The properties are financed by loans with a remaining term of approximately 7 years and bear an average interest rate of 1.85% p.a. and average amortisation of 3.12% p.a. The loans are subject to a debt-service coverage ratio (DSCR) financial covenant of 225%.

**B.** In July 2017, the Group acquired from one of its lenders a loan secured over several Group properties (the "Acquired Debt") for a consideration of €19.5 million.

In order to fund the transaction, the Group entered into a loan agreement with its majority shareholder, Summit Real Estate Holding Ltd. ("SREH"). SREH granted an unsecured shareholders loan of €19.5 million to the Company bearing an annual interest rate of 8%, with no amortisation. In March 2018, the loan was repaid as detailed in note 7D.

In February 2018, for the same properties, the Group acquired from a current lender a loan amounting to €12.2 million, which was secured over same certain of the Group's properties.

**C.** In January 2018, the Company issued €300 million of senior fixed rate notes. The senior notes have a term of seven years and bear an annual interest rate of 2.00%. The proceeds from the senior notes placement were used to refinance loans of certain subsidiaries of the Company as detailed hereafter and for general corporate purposes including acquisitions of assets.

**D.** In March 2018, the Company repaid approximately €220 million of existing debt facilities and its associated derivative instruments, including a €19.5 million loan from SHL.

**E.** As at December 31, 2018 the borrowing entities comply with all the covenants set in their financing agreements.

**F.** The outstanding costs of raising loans as of 31 December, 2018 are €6 million (2017: €3.3 million). These are presented net of interest-bearing loans and borrowings and amortised over the period of the loans. The increase is due to placement of bonds of €300 million as detailed in note 7c.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER, 2018**

**NOTE 8: TRADE RECEIVABLES**

	<b>31 December</b>	
	<b>2018</b>	<b>2017</b>
	<b>Euro in thousands</b>	
Trade receivables	2,723	1,621
Trade receivables from sale of apartments	517	-
Provision for doubtful debts	(495)	(600)
	<u>2,745</u>	<u>1,021</u>

Trade receivables are non-interest bearing and are generally 30-90 day terms.

As at 31 December, the ageing analysis of trade receivables, net is as follows:

	<b>Total</b>	<b>&lt; 30 days</b>	<b>30 – 60 days</b>	<b>60 – 90 day</b>	<b>90 – 120 day</b>	<b>&gt;120 days</b>
	<b>Euro in thousands</b>					
2018	2,745	947	608	349	64	777
2017	1,021	111	162	92	75	581

Movements in the provision for doubtful debts:

	<b>Euro in thousands</b>
At 1 January 2017	1,730
Released	(989)
Utilised	(141)
At 31 December 2017	<u>600</u>
Released	(28)
Utilised	(77)
At 31 December 2018	<u>495</u>

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER, 2018**

**NOTE 9: PREPAID EXPENSES AND OTHER CURRENT ASSETS**

	<b>31 December</b>	
	<b>2018</b>	<b>2017</b>
	<b>Euro in thousands</b>	
Prepaid expenses and other (a)	14,195	56,499
Service charge	125	6,730
Designated cash	1,621	1,840
	<u>15,941</u>	<u>65,069</u>

(a) The balance in 31 December 2017, includes €51.4 million receivable from a sale of property as detailed in 5d, which was collected after the end of the reporting period.

**NOTE 10: CASH AND CASH EQUIVALENTS**

	<b>31 December</b>	
	<b>2018</b>	<b>2017</b>
	<b>Euro in thousands</b>	
Cash at banks	<u>19,525</u>	<u>22,715</u>

**NOTE 11: SHARE CAPITAL**

**A.** The authorised share capital of the Group is represented by an unlimited number of Ordinary shares with no par value:

	<b>Issued and outstanding Number of shares</b>
At 1 January 2017	465,399,862
Issue of shares	-
At 31 December 2017	<u>465,399,862</u>
Change in the period (note 11G)	<u>(8,119,658)</u>
At 31 December 2018	<u><b>457,280,204</b></u>

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER, 2018**

**NOTE 11: SHARE CAPITAL (Cont.)**

**B. Distributable reserve:**

The directors have elected to transfer all premiums arising from the issue of ordinary shares by the Company to a distributable reserve, the balance of which as of 31 December 2018 is €348.8 million (as of 31 December 2017 – €370 million). This balance is included in other reserves. The change during the year derived from dividends distributed in 2018 (as detailed in C below) and from a share buy back (as detailed in G below).

In accordance with the Companies (Guernsey) law, 2008, any distribution is subject to a solvency test to determine whether the Company is able to distribute funds to shareholders.

**C. Distribution of dividends:**

In June 2017, the Company declared a dividend of 1.00 cent per share. The total amount of €4,654 thousand was paid to the shareholders in August 2017.

In September 2017, the Company declared a dividend of 1.00 cent per share. The total amount of €4,654 thousand was paid to the shareholders in November 2017.

In February 2018, the Company declared a dividend of 1.00 cent per share. The total amount of €4.65 million was paid to the shareholders in March 2018.

In May 2018, the Company declared a dividend of 1.00 cent per share. The total amount of €4.65 million was paid to the shareholders in June 2018.

In August 2018, the Company declared a dividend of 1.00 cent per share. The total amount of €4.65 million was paid to the shareholders in September 2018.

**D. NAV and EPRA NAV:**

	<b>As of 31 December 2018</b>		<b>As of 31 December 2017</b>	
	€, thousands	€, per share	€, thousands	€, per share
NAV (*)	781,969	1.71	533,301	1.15
Financial derivatives	965		4,948	
Deferred Tax, net	83,112		34,670	
EPRA NAV (**)	866,046	1.89	572,919	1.23

(\*) Net Asset Value

(\*\*) EPRA NAV is calculated based on the NAV excluding the effect of deferred taxes and the value of hedging instruments.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER, 2018**

**NOTE 11: SHARE CAPITAL (Cont.)**

- E.** As of 31 December 2018, Mr Harry Hyman holds 126,750 Ordinary Shares of No Par Value, representing 0.028% of the issued share capital of the Company.
- F.** In January 2018 the Company obtained Ba1 issuer rating and BB+ issuer rating (with stable outlook) by Moody's investors and S&P Global Ratings, respectively.
- G.** In 9 December 2018, the Company repurchased and cancelled 8,119,658 ordinary shares of no par value in the capital of the Company at a purchase price of €1.17 per share, returning €9.5 million to shareholders. Following the buy-back, the Company has 457,280,204 ordinary shares in issue and admitted to trading on AIM with no ordinary shares in treasury.

**NOTE 12: EARNINGS PER-SHARE**

The calculation of the basic and diluted earnings per share is based on the following data:

	<b>Year ended 31 December</b>	
	<b>2018</b>	<b>2017</b>
	<b>Euro in thousands</b>	
<b>Earnings</b>		
Earnings for the purposes of basic earnings per share being net profit attributable to owners of the Company	<u>263,330</u>	<u>100,697</u>
	<b>Year ended 31 December</b>	
	<b>2018</b>	<b>2017</b>
	<b>In thousands</b>	
<b>Number of shares</b>		
Weighted average number of ordinary shares for the purposes of the basic earnings per share	<u>464,866</u>	<u>465,400</u>

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER, 2018**

**NOTE 12: EARNINGS PER-SHARE (Cont.)**

The calculation of the basic and diluted earnings per share is based on the following data (Cont.):

Earnings Per Share:	Year ended 31 December	
	2018	2017
Basic (Euro per share)	0.566	0.216
Diluted (Euro per share)	0.566	0.216

There is no difference in the current year or the previous year between basic and diluted earnings per share.

**NOTE 13: BALANCES AND TRANSACTIONS WITH RELATED PARTIES**

	Amounts owed by related parties		Amounts owed to related parties	
	31 December		31 December	
	2018	2017	2018	2017
	Euro in thousands		Euro in thousands	
Related parties	177	184	2,548	3,998
	177	184	2,548	3,998

As of December 31, 2018, Summit Real Estate Holdings Ltd ("**SHL**") holds approximately 50.89% of the Ordinary shares of Summit Properties limited. SHL is under the control of Mr. Zohar Levy. Summit Management CO S.A. ("**SMC**"), a company controlled by Zohar Levy, was appointed as an Asset Manager on 19 May 2006. The terms of this appointment were revised in March 2017.

The balance owed to related parties includes a provision for management fees to SMC (including a provision for a performance-based compensation) of €2,470 thousand (accrual of unpaid amounts from current year and previous years).

See also note 7D in regard of loan received from SHL which was repaid during the reporting period.

**Compensation of key management personnel of the Company:**

	2018	2017
	Euro in thousands	
Directors' fees	364	291
Management fees	1,500	1,500
Total compensation paid to key management personnel	1,864	1,791



**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER, 2018**

**NOTE 13: BALANCES AND TRANSACTIONS WITH RELATED PARTIES (Cont.)**

**Compensation of key management personnel of the Company (Cont.):**

**A. Assets Management Company and ultimate controlling party:**

At the date of this report Summit Real Estate Holdings Ltd ("**SHL**") holds approximately 50.89% of the Ordinary shares in the Company. SHL is under the control of Mr. Zohar Levy, the Managing Director of the Group. Summit Management CO S.A. ("**SMC**"), a company 100% owned by Zohar Levy, was appointed as an Asset Manager on 19 May 2006. The terms of this appointment were revised in February 2014 and in March 2017. For the terms and conditions of the management agreement, refer to Note 13B.

The amounts owed to related parties as of 31 December 2018 include a provision for management fees to SMC in the amount of €2,470 thousand (which includes a provision for a performance based compensation in the amount of €750 thousand).

**B. Terms and conditions of the management agreement**

According to the management agreement, SMC is responsible for providing certain public company services and advisory services to the Group and is entitled to an advisory fee equal to €750,000 per annum, payable quarterly, plus the potential to receive a performance-based bonus of up to €750,000 per annum, depending on certain performance criteria.

The performance-based bonus is based on hurdles determined by the Remuneration and Nomination Committee. Until 31 December 2016, the bonus was payable if the Company's Funds From Operations ("**FFO**") was equal to or greater than 112% of the base FFO determined by the Remuneration and Nomination Committee of the Company for the applicable accounting year ("**Base FFO**"). Where the Company's FFO in the accounting year was above the Base FFO but less than 112% of the Base FFO, SMC was entitled to an amount equal to the pro-rata proportion of the Maximum Bonus.

In March 2017 the management agreement was revised through implementation of three principal amendments to the fee payable to SMC with effect from 1 January 2017.

The annual advisory fee payable to SMC remains €750,000, but going forward SMC is obliged to provide the services of the Managing Director only and not the services of the Finance Director, which is engaged directly by the Group since November 2014.

The existing annual performance-based bonus entitlement of SMC remains capped at a maximum of €750,000 per annum. However, the basis on which the Bonus amount is calculated has been amended so that it is no longer based on the Group's FFO, but by reference to the aggregate return to the shareholders of the Company at the end of each accounting year, whether as a result of dividends received and/or an increase in the net asset value of the Group (excluding any increase due to revaluations) (the "**Return**"). The performance-based bonus is calculated on a pro-rata basis for any increase in the Return up to and including 5.5%.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER, 2018**

**NOTE 13: BALANCES AND TRANSACTIONS WITH RELATED PARTIES (Cont.)**

**Compensation of key management personnel of the Company: (Cont.)**

**B. Terms and conditions of the management agreement (Cont.)**

SMC shall be entitled to receive a "Special Bonus" if, at any time in the period commencing on 1 January 2017 and ending on the date falling three years thereafter (i.e. 1 January 2020), there is a qualifying sale or series of sales of any properties of the Group. A qualifying sale or series of sales is one, which alone or in aggregate, results in the proceeds received by the Summit Group, (net of any costs and expenses incurred in connection with the relevant sale(s)) and less the value (as stated in the Group's valuation as at 30 June 2016) of the properties sold, being greater than €50 million (the whole of such amount being the "Qualifying Amount"). The Special Bonus shall be an amount equal to five per cent of the Qualifying Amount and is subject to a total aggregate cap of €10 million over the three year term.

In addition, in the first accounting year in which a Special Bonus is payable, any bonus payable in that same year shall be deducted from the amount of the Special Bonus so payable.

As at the date of this report, no sale transactions occurred which would cause the threshold triggering a provision for special bonus payment to be exceeded and no provision in this respect has been recorded in the Company's financial statements as of 31 December 2018. If properties were to be sold at their carrying value of 31 December 2018, such a provision would have amount to €10 million.

Any Bonus which SMC is entitled to receive in any relevant accounting year shall be reduced by an amount equal to any carried interest amount paid to SMC pursuant to the articles of incorporation of Summit Finance Ltd ("SFL") in respect of the same accounting year, provided that any bonus shall not be reduced to less than zero.

As at 31 December 2018 the performance criteria were met and a provision in the amount of €750,000 was included in the Group's annual financial statements. The payment of the performance-based bonus is subject to the approval of the Remuneration and Nomination Committee of the Group.

The articles of association of SFL ("SFL Articles") contain certain provisions which relate to SMC's carried interest entitlement in respect of their services provided under the initial Portfolio Management Agreement from 2006. SMC holds special B shares in SFL, a Group subsidiary, which will give it the right to receive a carried interest if the Company distributes a cash return on shareholders' equity of at least 8% in any financial year ("the Hurdle"). SMC will be entitled to receive 25% of the cash return in that year in excess of the Hurdle after deducting the carried interest entitlement. If the Company has not achieved a cash return on shareholders' equity of at least 8% in any previous year ("a Shortfall"), the carried interest will not be paid until the Shortfall has been made up. Where such fees arise, they are charged to the consolidated statement of comprehensive income. No amounts were ever due in respect of the aforementioned. As of 31 December 2018, the Shortfall is approximately €241.9 million. Therefore, the likelihood that SMC would be entitled to receive any carried interest is low.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER, 2018**

**NOTE 13: BALANCES AND TRANSACTIONS WITH RELATED PARTIES (Cont.)**

**Compensation of key management personnel of the Company: (Cont.)**

**B. Terms and conditions of the management agreement (Cont.)**

SFL articles were amended so SMC's entitlement to receive any carried interest payable is by virtue of its ownership of B shares in SFL. The SFL Articles and the amended Portfolio Management Agreement provide that the B shares may be held by whoever is the appointed asset manager under the Portfolio Management Agreement or any other asset or portfolio management agreement to which the Group is a party from time to time.

**NOTE 14: TRADE AND OTHER PAYABLES**

	<b>31 December</b>	
	<b>2018</b>	<b>2017</b>
	<b>Euro in thousands</b>	
Accrued expenses	4,233	9,776
Accrued interest	2,660	1,408
Service charge prepayments	-	6,169
VAT	1,268	657
Provisions	14,196	8,758
Trade accounts payable	4,248	3,115
Other	4,171	2,322
	<u>30,776</u>	<u>32,197</u>

**NOTE 15: GENERAL AND ADMINISTRATIVE EXPENSES**

	<b>Year ended 31 December</b>	
	<b>2018</b>	<b>2017</b>
	<b>Euro in thousands</b>	
Management and directors' fees (a)	2,268	1,901
Professional fees (b)	2,153	1,800
Salaries	3,486	3,026
Administration fees	129	97
Office expenses	249	180
Other expenses	973	756
	<u>9,258</u>	<u>7,760</u>

- (a) See Note 13 for details of the management agreement.
- (b) Professional fees include audit fees in the amount of €305 thousand (2017: €264 thousand). Out of the audit fee, an amount of €85 thousand is allocated to Deloitte LLP services. No fee was paid for tax services or non assurance services to Deloitte during the reporting years.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER, 2018**

**NOTE 16: FINANCIAL EXPENSES (INCOME)**

	Year ended 31 December	
	2018	2017
	Euro in thousands	
<b>Financial expenses:</b>		
Interest on borrowings	10,763	10,910
Amortisation of cost of raising loans (a)	2,955	1,154
Other (b)	-	7,588
Total financial expenses	<u>13,718</u>	<u>19,652</u>
<b>Financial income:</b>		
Total financial income	<u>3,051</u>	<u>2,297</u>

- (a) Includes €2.14 million write-off in 2018 following the loans repayment as detailed in note 7 above.  
(b) In 2017 – includes €7 million of accrued costs related to early repayment of bank loans as detailed in note 7d.

**NOTE 17: TAXATION**

**A) Taxes on income recognised in the consolidated statement of comprehensive income:**

	Year ended 31 December	
	2018	2017
	Euro in thousands	
<u>Current income tax:</u>		
Current income tax charge	1,315	1,904
<u>Deferred income tax (See C):</u>		
Relating to origination and reversal of temporary differences	<u>43,324</u>	<u>13,780</u>
Income tax expense reported in the statement of comprehensive income	<u>44,639</u>	<u>15,684</u>

- B)** The Company is subject to taxation under the laws of Guernsey. The Company qualifies for exempt status, which results in no Guernsey taxation on income it receives, including interest and dividends received, or capital gains from the disposal of investments. Exempt status is achieved by application. Application is made to the Director of Income Tax in Guernsey for confirmation that the Company is eligible for exempt status under the Income Tax (Exempt Bodies) (Guernsey) Ordinance, 1989. The exemption must be reapplied on an annual basis. The subsidiaries are subject to income taxes in their country of domicile in respect of their income. The ordinary corporate income tax rate in Germany as of 31 December 2018 is 15.825% (31 December 2017: 15.825%). The majority of the Group's subsidiaries are subject to German tax which will include RETT on property transactions, where applicable. Certain Group subsidiaries are taxable in Guernsey at 0%.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER, 2018**

**NOTE 17: TAXATION (Cont.)****B) (Cont.)**

A reconciliation between the tax benefit in the consolidated statement of comprehensive income and the profit before taxes multiplied by the current tax rate can be explained as follows:

	<b>Year ended 31 December</b>	
	<b>2018</b>	<b>2017</b>
	<b>Euro in thousands</b>	
Profit before taxes on income	334,221	128,673
Tax at the statutory tax rate in Germany (15.825%)	52,890	20,362
Increase (decrease) in respect of:		
Losses for which deferred taxes were not recorded	(5,857)	(1,224)
Effect of different tax rate	(6,201)	(4,307)
Non-deductible expenses, net	1,583	(1,247)
Difference between tax and reporting GAAP	3,080	2,661
Other	(856)	(561)
Income tax expense	44,639	15,684

**C) Deferred income tax:**

	<b>Consolidated statement of financial position</b>	
	<b>2018</b>	<b>2017</b>
	<b>Euro in thousands</b>	
<u>Deferred tax asset (liability)</u>		
Revaluations of investment properties to fair value	(106,365)	(50,038)
Losses carried forward	20,862	12,399
Revaluations of financial instruments	153	435
Provisions	1,388	2,441
Other	850	93
Deferred tax liabilities, net	(83,112)	(34,670)

The Group offsets deferred tax assets and liabilities when these are originated by the same tax entity. After offsetting such assets and liabilities, the net balances are:

	<b>Consolidated statement of financial position</b>	
	<b>2018</b>	<b>2017</b>
	<b>Euro in thousands</b>	
Deferred tax asset	391	699
Deferred tax liability	(83,503)	(35,369)

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER, 2018**

**NOTE 17: TAXATION (Cont.)****C) Deferred income tax (Cont.):**

	<b>Consolidated statement of comprehensive loss (income)</b>	
	<b>2018</b>	<b>2017</b>
	<b>Euro in thousands</b>	
<u>Deferred tax expense (income)</u>		
Revaluations of investment properties to fair value	51,374	16,415
Losses carried forward	(7,278)	(1,013)
Provisions	(1,133)	(1,602)
Other	361	(20)
Increase in deferred tax	<u>43,324</u>	<u>13,780</u>
	<b>Other comprehensive loss</b>	
	<b>2018</b>	<b>2017</b>
	<b>Euro in thousands</b>	
<u>Deferred tax expense (income)</u>		
Revaluations of financial instruments	-	374
Increase in deferred tax	<u>-</u>	<u>374</u>

- D)** Group's carried forward tax losses for which deferred taxes were not recognised are €51 million (2017 €88 million). Deferred tax assets on loss carry forward are recognised by the Group according to the applicable tax laws, to the extent that it is probable that taxable profit will be available against which the losses can be utilised.

- E)** Real Estate Transfer Tax:  
 Transactions concerning German real estate may trigger Real Estate Transfer Tax (RETT) of 3.5% to 6.5% of the purchase price or the asset value, according to the location of the real estate.

**NOTE 18: FINANCIAL INSTRUMENTS**

The Group's principal financial liabilities, other than derivatives, comprise mainly bank loans, and trade payables. The main purpose of these financial liabilities is to raise finance for the Group's operations. The Company has various financial assets such as trade receivables and cash and short-term deposits. The main risks arising from the Group's financial instruments are market risk, credit risk and liquidity risk as summarised below.



**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER, 2018**

**NOTE 18: FINANCIAL INSTRUMENTS (Cont.)**

**Market risk:**

Market risk is the risk that the fair value of future cash flows of financial instruments will fluctuate because of changes in market prices. Market prices comprise two types of risks that are relevant to the Company: Interest rate risk and Price risk.

- **Interest rate risk:**

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's long-term debt obligations with floating interest rates.

The Group's policy is to fix the interest rate of its bank loans by entering into fixed interest rate loan agreements and by entering into interest rate swaps, in which the Group agrees to exchange, at specified intervals, the difference between fixed and variable rate interest amounts calculated by reference to an agreed-upon notional principal amount. At 31 December 2018 after taking into account the effect of interest rate swaps, the majority of the Group's borrowings are at a fixed rate of interest. All interest rate swap contracts exchanging floating rate interest amounts for fixed rate interest amounts are designated as cash flow hedges in order to reduce the Group's cash flow exposure resulting from variable interest rates on borrowings. The interest rate swaps and the interest payments on the loan occur simultaneously and the amount accumulated in equity is reclassified to profit or loss over the period that the floating rate interest payments on debt affect profit or loss.

As of 31 December 2018 the Group have immaterial financial instruments allocated to interest hedging transactions entered into GXP. Approximately €293 million of Interest bearing loans and borrowings are at a fixed interest rate, while approximately €14 million at an interest rate of Euribor plus margin.

- **Price risk:**

The Group's financial instruments measured at FVTOCI are susceptible to price risk arising from uncertainties about future values of the investment in those instruments. The Group manages the equity price risk through diversification and placing limits on individual and total equity instruments. The Company's senior management monitors value and extent of such investments on an ongoing basis.

As of 31 December 2018, the Group does not hold any marketable securities and does not hold significant financial instruments measured at FVTOCI (see note 6).

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER, 2018**

**NOTE 18: FINANCIAL INSTRUMENTS (Cont.)**

• **Credit risk:**

Credit risk is the risk that counterparty will not meet its obligations, as reflected as of the period end in the Group's financial statements, under a financial instrument or customer contract, leading to a financial loss. The Group is exposed to credit risk from its operating activities.

The Group performs ongoing credit evaluations of its lessees and the financial statements include specific allowances for doubtful accounts which, in management's estimate, adequately reflect the underlying loss of debts whose collection is doubtful.

The Group does not have significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics. The Group defines counterparties as having similar characteristics if they are related entities.

The carrying amount of financial assets recognised in financial statements net of impairment losses represents Group's maximum exposure to credit risk, without taking into account collateral or other credit enhancements held.

Collateral and other credit enhancements are obtained in most cases, pursuant to management assessment of the client's credit quality and an assignment of its credit limits. The Group does not invest its cash with banks that have a low credit rating. As such, the group does not have significant credit risk exposure.

**Liquidity risk:**

The table below summarises the maturity profile of the Group's financial liabilities based on contractual undiscounted payments.

	As at 31 December 2018					Total
	Up to 1 year	1-2 years	2-3 years	3-4 years	> 4 years	
	Euro in thousands					
Interest bearing loans and borrowings	41,159	22,558	92,643	54,276	470,652	681,288
Trade and other payables	16,580	-	-	-	-	16,580
Other liabilities	-	2,519	-	-	965	3,484
Payables to related parties and shareholders	2,548	-	-	-	-	2,548
	<u>60,287</u>	<u>25,077</u>	<u>92,643</u>	<u>54,276</u>	<u>471,617</u>	<u>703,900</u>

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER, 2018**

**NOTE 18: FINANCIAL INSTRUMENTS (Cont.)**

**Liquidity risk: (Cont.)**

	As at 31 December 2017					Total
	Up to 1 year	1-2 years	2-3 years	3-4 years	> 4 years	
	Euro in thousands					
Interest bearing loans and borrowings	46,138	34,171	23,029	147,035	191,374	441,747
Trade and other payables	34,083	-	-	-	-	34,083
Other liabilities	1,690	-	-	-	-	1,690
Payables to related parties and shareholders	3,998	-	-	-	-	3,998
	<u>85,909</u>	<u>34,171</u>	<u>23,029</u>	<u>147,035</u>	<u>191,374</u>	<u>481,518</u>

**Capital management:**

The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximise shareholder value. The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares.

The Group is not subject to any externally imposed capital requirements.

No changes were made in the objectives, policies or processes during the years ended 31 December 2018, 31 December 2017.

The gearing ratios at 31 December 2018 and 31 December 2017 were as follows:

	2018	2017
	Euro in thousands	
Non-current interest bearing loans and borrowings	577,754	357,834
Current loans and borrowings	26,299	36,469
Less cash and short term deposits	(19,525)	(22,715)
Net debt	<u>584,528</u>	<u>371,588</u>
Equity	<u>841,288</u>	<u>566,092</u>
Total capital	<u>1,425,816</u>	<u>937,680</u>
Gearing ratio	<u>41%</u>	<u>40%</u>

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER, 2018**

**NOTE 18: FINANCIAL INSTRUMENTS (Cont.)**

**Fair value of financial instruments and non-financial instruments:**

**Fair value of financial instruments carried at amortised cost:**

The directors consider that the carrying amounts of financial assets and financial liabilities recognised at amortised cost in the financial statements approximate their fair values.

**Fair value measurements recognised in the statement of financial position:**

The financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 2 and 3 based on the degree to which the fair value is observable (see note 2 for definitions applicable to each level).

	31 December 2018			
	Level 1	Level 2	Level 3	Total
	Euro in thousands			
<b>Non - Financial assets:</b>				
Investment properties (see Note 5)	-	-	1,488,967	1,488,967
<b>Financial assets</b>				
Financial assets measured at fair value through profit and loss (a)	-	-	20,295	20,295
Financial assets at FVTOCI (b)	-	-	3,851	3,851
Total	-	-	1,513,113	1,513,113
<b>Financial liabilities</b>				
Derivative instruments – swaps (c)	-	(965)	-	(965)
	31 December 2017			
	Level 1	Level 2	Level 3	Total
	Euro in thousands			
<b>Non - Financial assets:</b>				
Investment properties (see Note 5)	-	-	938,863	938,863
<b>Financial assets</b>				
Financial assets at FVTOCI (b)	-	-	2,710	2,710
Total	-	-	961,630	961,630
<b>Financial liabilities</b>				
Derivative instruments – swaps (c)	-	(4,948)	-	(4,948)

- (a) See note 6(3). Following the adoption of IFRS9 at the beginning of 2018, the Company measures loans given to finance certain residential construction projects in Berlin at fair value through profit and loss.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER, 2018**

**NOTE 18: FINANCIAL INSTRUMENTS (Cont.)**

**Fair value measurements recognised in the statement of financial position (Cont.):**

(b) See note 6(1). The change in 2018 resulted from acquisition of GxP (note 24).

(c) Derivative instruments:

The fair value of derivative interest rate contracts (interest rate swap agreements) are estimated by discounting expected future cash flows using current market interest rates and yield curve over the remaining term of the instrument.

In the years 2016-2017 the Group contracted hedging instruments under the form of "Interest rate swaps" at a fixed rate of 0.9%-1.2% from the initial repayment date, the swap derivatives were fully repaid in March, 2018.

During 2018 as part of the purchase of several commercial properties, derivative instruments in a value of €965 thousands were consolidated (for further details please see note 24).

**NOTE 19: CHANGES IN LIABILITIES ARISING FROM FINANCING ACTIVITIES**

The table below details changes in the Group's liabilities arising financing activities including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the Group's consolidated cash flow statements as cash flows from financing activities.

	<u>1 January 2018</u>	<u>Financing cash flows</u>	<u>Acquisition of subsidiary</u>	<u>Fair value adjustments</u>	<u>Other changes</u>	<u>31 December 2018</u>
Interest-bearing loans and borrowings	389,355	60,226	151,474	-	2,033	603,088
Shareholders loans and Bonds issued by related party	22,348	(22,738)	-	-	390	-
Derivative financial liabilities	4,948	(5,543)	965	-	595	965
	<u>1 January 2017</u>	<u>Financing cash flows</u>	<u>Acquisition of subsidiary</u>	<u>Fair value adjustments</u>	<u>Other changes</u>	<u>31 December 2017</u>
Interest-bearing loans and borrowings – non-current	361,330	(43,895)	70,453		(1,467)	389,355
Shareholders loans and Bonds issued by related party	2,198	19,751	-		399	22,348
Derivative financial liabilities	7,923	-	-		(2,975)	4,948

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER, 2018**

**NOTE 20: OPERATING LEASE**

Operating Lease— Group as Lessor

The Group has entered into commercial property leases on its investment property portfolio. These non-cancellable leases have remaining average terms of between 1 and 20 years (the average non-cancellable lease length is approximately 4.2 years). The majority of the leases include a clause to enable upward revision of the rental charge on an annual basis according to the price index or a fixed increase rate.

Future minimum rentals receivable under non-cancellable operating leases are as follows:

	For the year ended 31 December	
	2018	2017
	Euro in thousands	
Within one year	81,592	61,126
After one year but not more than five years	216,077	155,570
More than five years but not more than ten years	76,634	53,792
More than ten years but not more than fifteen years	14,431	8,802
More than fifteen years	3,335	825
	<u>392,069</u>	<u>280,115</u>

**NOTE 21: INVENTORY OF BUILDING UNDER CONSTRUCTION AND CONTRACT ASSETS**

**General information**

During 2018 the Group entered into a Development project for new residential units over a parking lot. The project includes 62 residential units with a total area of 6,250 sqm and 193 parking spaces, of which 123 are underground parking. No impact is expected on the existing office building and tenancy following the said development. Revenue from the construction project is recognised over time, based on progress of completion of the project. As at 31 December 2018, the percentage of the project completion is 41% (percentage of completion is calculated based on costs incurred to date out of total projected costs).

**A. Composition of inventory of buildings under construction**

	31 December	
	2018	2017
	Euro in thousands	
Cost of the land	1,080	-
Cost of construction	1,656	-
	<u>2,736</u>	<u>-</u>



**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER, 2018**

**NOTE 21: INVENTORY OF BUILDING UNDER CONSTRUCTION AND CONTRACT ASSETS (Cont.)**

**B. Contract assets**

	<b>31 December</b>	
	<b>2018</b>	<b>2017</b>
	<b>Euro in thousands</b>	
Construction contracts	3,643	-
	<u>3,643</u>	<u>-</u>

Amounts relating to contract assets are balances due from customers under construction contracts that arise when the Group receives payments from customers in line with a series of performance related milestones.

**NOTE 22: PROPERTIES FOR DEVELOPMENT**

The Group has commenced a development of 70 residential units on an existing parking lot with 114 parking spaces, of which 96 are underground in its property located in Frankfurt. Most of the units are part of a new building while the remaining units will result from the conversion of currently vacant office space, no effect on the current rent expected from the construction process. The Preliminary building permit was received in January 2019.

Composition of Properties for development

	<b>31 December</b>	
	<b>2018</b>	<b>2017</b>
	<b>Euro in thousands</b>	
Cost of the land	4,000	-
Cost capitalised to the land	1,125	-
	<u>5,125</u>	<u>-</u>

**NOTE 23: OPERATING SEGMENTS:**

**A. General**

Information reported to management for the purposes of resource allocation and assessment of segment performance is focused on the category of customer for each type of activity. The Group's reportable segments under IFRS 8 are therefore as follows:

Segment A - investment properties - Leasing property for rental income.

Segment B - residential development – income and inventory of apartments under construction.

Most of the income and expenses are attributed directly to the segments. Some of the expenses paid by the Company to both sectors are allocated to the segments on a reasonable basis.

The segment's assets include all of the operating assets used by the segment.

The segment's assets and liabilities do not include deferred taxes.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER, 2018**

**NOTE 23: OPERATING SEGMENTS (Cont.):**

**B. Analysis of income and results by operating segments:**

Segment income and expenses include income and expenses arising from the operating activities of the segments that are directly attributable to business segments.

It is noted that up until 2017, the Group had a single reportable segment, being commercial real estate in Germany, which included the leasing activities of the Group. From 2018, the Group started to undertake activities relating to the development and sale of residential units and as such now presents two separate segments.

Year ended December 31, 2018:

	<b>Investment Properties</b>	<b>Residential Development</b>	<b>Total</b>
	<b>Euro in thousands</b>		
Income	67,376	9,905	77,281
<b>Segment profit(*)</b>	342,471	2,417	344,888
Expenses not allocated to the segment			-
Operating profit			344,888
Finance expenses, net			(10,667)
Tax expenses			(44,639)
Net income			289,582
(*) Includes revaluation gain of investment properties	296,840	-	296,840

**C. Analysis of income and results by operating segments:**

	<b>Investment Properties</b>	<b>Residential Development</b>	<b>Total</b>
	<b>Euro in thousands</b>		
Segment assets	1,533,397	12,475	1,568,872
Assets not allocated to the segment	-		391
<b>Total assets</b>			1,566,263
Segment liabilities	641,472	-	641,472
Liabilities not allocated to the segment			83,503
<b>Total Liabilities</b>			724,975

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
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**NOTE 24: SIGNIFICANT EVENTS DURING THE REPORTING PERIOD**

- A.** During 2018, the Group completed an acquisition of a 77.21% interest in GxP German Properties AG ("GxP"), a company listed in Frankfurt stock exchange. GxP owns an office portfolio of approximately €167 million at the date of acquisition. The properties are located mainly in Frankfurt, Berlin and NRW. The portfolio consists of 12 properties which are 89% let and the date of acquisitions and generate €10.8 million p.a. of net rent, reflecting a yield of approximately 6.5%. The consideration for the acquired shares was approximately €46 million.

After the balance sheet date, the Company acquired further shares representing 0.2% interest for €93 thousands.

GxP results were first consolidated on 30 September, 2018. GxP results generated from the beginning of 2018 to the first consolidation date are 236 thousands net profit attributed to the shareholders of GxP.

The Company treated the acquisition as business combination. List of assets and liabilities that were acquired:

	<b>30 SEPTEMBER</b>
	<b>2018</b>
	<b>Euro in thousands</b>
Total consideration	45,726
Investment properties	167,149
Cash and cash equivalents	1,660
Other long term assets	3,689
Prepaid expenses and other current assets	1,496
Trade receivables, net	595
Interest bearing loans and borrowings	(101,313)
Deferred tax liability	(4,878)
Non-controlling interest	(2,078)
Trade and other payable	(5,654)
Net assets	60,666
Group's share	45,726
Attributed to non-controlling interest	14,940

As of the date of publishing this report, the Purchase Price Allocation (PPA) is an estimate and will be completed during a period of up to one year from the closing date of the transaction.

- B.** During the period, the Company acquired additional shares of Deutsche Real Estate AG ("DRE AG") for consideration of approximately €10.5 million, reflecting approximately 9.1% of DRE AG share capital. Following the acquisition, the Company holds 89.9% of DRE AG. The difference between the purchase price and the acquired shares NAV is included in the consolidated statements of changes in equity in the total amount of €7,116 thousand, €6,850 thousand in regard of the acquisition of DRE AG shares and €266 thousand in regard of the acquisition of shares of GxP, as described in note 24A.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER, 2018**

**NOTE 24: SIGNIFICANT EVENTS DURING THE REPORTING PERIOD (Cont.)**

- C.** In October 2018 the Company completed the acquisition of a portfolio of eight commercial properties. The total purchase price of the portfolio was €85 million. The acquired properties consist of 8 well located multi service centers, mainly in Berlin, Frankfurt and Düsseldorf. The aggregate annual net rent from these properties is €5.8 million, which reflects a rental yield of 6.75%. The purchase price, net of €51 million senior debt, was financed by the Company's existing cash.

This transaction was treated as acquisition of assets and liabilities. The List of assets and liabilities that were acquired is as follow:

	<u>1 OCTOBER,</u> <u>2018</u> <u>Euro in thousands</u>
Total consideration	33,463
Investment properties	85,000
Cash and cash equivalents	1,521
Prepaid expenses and other current assets	380
Trade receivables, net	249
Interest bearing loans and borrowings	(50,161)
Derivative instruments – swaps	(965)
Trade and other payable	(1,002)
Net assets	35,022
Group's share	33,463
Attributed to non-controlling interest	1,559

**NOTE 25: SIGNIFICANT EVENTS AFTER THE REPORTING PERIOD**

- A.** In February 2019, the Company changed its name to Summit Properties Limited.
- B.** In March 2019, the Company refinanced ca. €27 million of short term debt facilities, which were at an interest rate of 2.1% and secured by three properties. The new loan of ca. €29m was provided by a German lender on a 20 year term at a fixed interest rate of 2.7% p.a. and annual amortisation rate of 3.0%. It is secured by the same Company's properties and bears no covenants.

This refinancing extended the weighted average term of the Company's debt facilities from 6.0 to 6.8 years as of period end, while maintaining the average interest rate of the Company at a level of 2.2%.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
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**NOTE 25: SIGNIFICANT EVENTS AFTER THE REPORTING PERIOD (Cont.)**

- C. The Company is considering a private placement and listing of shares in Summit Luxco S.à r.l. ("Luxco") on the regulated market of the Frankfurt Stock Exchange (Prime Standard) in 2019, subject to market conditions. Luxco currently is a wholly-owned subsidiary of Summit and holds all of its German real estate assets, including asset and property management operations. Summit is considering the listing to provide investors with the opportunity to invest in Summit's German real estate business and to facilitate Luxco's growth in Germany through the execution of its existing development pipeline and additional acquisitions of commercial real estate properties.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
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**NOTE 26: THE COMPANY'S HOLDINGS AS OF 31 DECEMBER 2018**

	<b>Principal activity</b>	<b>Country of incorporation</b>	<b>Direct and indirect holdings %</b>
Summit Finance Limited	Intermediate holding company	Guernsey	100%
Neston (International) Limited	Intermediate holding company	Gibraltar	100%
Summit Loanco LTD	Inter group holding company	Guernsey	100%
Summit Sterne Guernsey LTD	Intermediate holding company	Guernsey	100%
Summit Luxco S.a.r.l	Intermediate holding company	Luxembourg	100%
Gallia invest S.a.r.l.	Inter group financing company	Luxembourg	100%
Summit Re One GmbH	Intermediate holding company	Germany	100%
Summit Real Estate Silver GmbH	Intermediate holding company	Germany	94.80%
Summit RE Two GmbH	Intermediate holding company	Germany	100%
Summit Real Estate Gold GmbH	Intermediate holding company	Germany	94.80%
Summit RE Three GmbH	Intermediate holding company	Germany	100%
Summit Real Estate Bronze GmbH	Intermediate holding company	Germany	94.80%
Summit RE Four GmbH	Inter group holding company	Germany	100%
Summit RE Five GmbH	Intermediate holding company	Germany	100%
Summit RE Six GmbH	Intermediate holding company	Germany	100%
Summit RE Seven GmbH	Intermediate holding company	Germany	100%
Summit RE Eight GmbH	Intermediate holding company	Germany	100%
Summit Real Estate Platinum GmbH	Intermediate holding company	Germany	94.80%
Summit Real Estate Titanium GmbH	Intermediate holding company	Germany	94.80%
Summit Real Estate Magdeburg GmbH	Intermediate holding company	Germany	100%
Summit Real Estate Hauau GmbH	Intermediate holding company	Germany	100%
M.S.C Objekt Magdeburg GmbH & Co. KG	Real Estate company	Germany	99.73%
M.S.C Objekt Hanau GmbH & Co. KG	Real Estate company	Germany	99.73%
Summit Real Estate Blue GmbH	Real Estate company	Germany	99.73%
Summit Real Estate Orange GmbH	Real Estate company	Germany	99.73%
Summit Real Estate Yellow GmbH	Real Estate company	Germany	99.73%
Summit Real Estate White GmbH	Real Estate company	Germany	99.73%
Summit Real Estate Red GmbH	Real Estate company	Germany	99.73%
Summit Real Estate Purple GmbH	Real Estate company	Germany	99.73%
Summit Real Estate Ismaning GmbH	Real Estate company	Germany	94.67%
Summit Real Estate Duisburg GmbH	Real Estate company	Germany	94.67%
Summit Real Estate Black GmbH	Intermediate holding company	Germany	99.73%
Summit RE GmbH & Co. Black 1KG	Real Estate company	Germany	99.73%
Summit RE GmbH & Co. Black 2KG	Real Estate company	Germany	99.73%
Summit RE GmbH & Co. Black 3KG	Real Estate company	Germany	99.73%
BDPE S.ar.l.	Real Estate company	Luxembourg	99.73%
Summit Real Estate Cammarus GmbH	Intermediate holding company	Germany	99.73%
Summit Real Estate Brown GmbH	Real Estate company	Germany	99.73%
Summit Real Estate Indigo GmbH	Real Estate company	Germany	99.73%
Summit Real Estate Maroon GmbH	Real Estate company	Germany	99.73%
Summit Real Estate Azure GmbH	Real Estate company	Germany	99.73%
Summit Real Estate Alpha GmbH	Real Estate company	Germany	99.73%
Summit Real Estate Delta GmbH	Real Estate company	Germany	99.73%
Summit Real Estate Gamma GmbH	Real Estate company	Germany	99.73%



**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
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**NOTE 26: THE COMPANY'S HOLDINGS AS OF 31 DECEMBER 2018 (Cont.)**

	<b>Principal activity</b>	<b>Country of incorporation</b>	<b>Direct and indirect holdings %</b>
Lommy GmbH	Real Estate company	Germany	99.73%
Summit Real Estate Amber GmbH	Real Estate company	Germany	99.73%
Summit Real Estate Lavender GmbH	Real Estate company	Germany	99.73%
Summit Real Estate Ruby GmbH	Real Estate company	Germany	99.73%
Summit Real Estate Epsilon GmbH	Real Estate company	Germany	99.73%
RE one finance GmbH	Inter group financing company	Germany	100%
Summit Real Estate BOS GmbH	Real Estate company	Germany	99.73%
Summit Real Estate Delphinus GmbH	Real Estate company	Germany	99.73%
Summit Real Estate Formica GmbH	Real Estate company	Germany	99.73%
Summit Real Estate Grey GmbH	Real Estate company	Germany	99.73%
Grundstücksgesellschaft Gewerbepark Hansalinie GmbH	Real Estate company	Germany	99.73%
Summit Real Estate Kappa GmbH	Real Estate company	Germany	99.73%
Summit Real Estate Papilio GmbH	Real Estate company	Germany	99.73%
Summit Real Estate Salmo GmbH	Real Estate company	Germany	99.73%
Summit Real Estate Ursus GmbH	Real Estate company	Germany	99.73%
Summit Real Estate Zeta GmbH	Real Estate company	Germany	99.73%
Summit Real Estate Camelus GmbH	Real Estate company	Germany	99.73%
Summit Living Oberursel GmbH	Real Estate company	Germany	99.73%
RE three finance GmbH	Inter group financing company	Germany	100%
Gadelander Str. 77 Projekt GmbH	Real Estate company	Germany	99.73%
Summit Real Estate Hirundo GmbH	Real Estate company	Germany	94.80%
H130 Boblingen GmbH	Real Estate company	Germany	94.60%
Summit Sindelfingen GmbH	Real Estate company	Germany	94.60%
Summit RE Beta GmbH	Real Estate company	Germany	94.80%
Summit RE Nine GmbH	Intermediate holding company	Germany	94.80%
Summit RE Corvus GmbH	Shelf company	Germany	94.80%
Summit RE Wolfsburg 1 GmbH	Real Estate company	Germany	94.80%
Summit RE Wolfsburg 2 GmbH	Real Estate company	Germany	94.80%
Summit RE Oberusel B.V	Real Estate company	Netherlands	94.89%
GXP German Properties AG	Intermediate holding company	Germany	77.21%
Frankfurt a. M. Merton Passagen Objekt GmbH	Real Estate company	Germany	72.58%
German Investment Management Holding GmbH	Intermediate holding company	Germany	77.21%
Hamm Unionstraße Objekt GmbH	Real Estate company	Germany	72.58%
Teltow Towers Rheinstraße 15 GmbH	Real Estate company	Germany	73.28%
Teltow Towers II UG	Real Estate company	Germany	77.21%
GxP Asset Management GmbH	Intermediate holding company	Germany	77.21%
German Asset Management I. Beteiligungsgesellschaft mbH	Intermediate holding company	Germany	77.21%
German Asset Management II. Beteiligungsgesellschaft mbH	Intermediate holding company	Germany	77.21%
German Asset Management III. Beteiligungsgesellschaft mbH	Shelf company	Germany	77.21%
German Asset Management IV. Beteiligungsgesellschaft mbH	Shelf company	Germany	77.21%

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER, 2018**

**NOTE 26: THE COMPANY'S HOLDINGS AS OF 31 DECEMBER 2018 (Cont.)**

	<b>Principal activity</b>	<b>Country of incorporation</b>	<b>Direct and indirect holdings %</b>
German Asset Management II.GmbH	Intermediate holding company	Germany	77.21%
German Asset Management V. Beteiligung UG	Shelf company	Germany	77.21%
German Asset Management VI. Beteiligung UG	Intermediate holding company	Germany	77.21%
German Asset Management VII. Beteiligung UG	Shelf company	Germany	77.21%
THOR- Portfolio Beteiligungs GmbH	Intermediate holding company	Germany	77.21%
Thor Object I S.a.r.l	Real Estate company	Luxemburg	73.28%
Thor Object II S.a.r.l	Real Estate company	Luxemburg	73.28%
Thor Object III S.a.r.l	Real Estate company	Luxemburg	73.28%
II. GAM Vorratsgesellschaft UG	Shelf company	Germany	77.21%
GIMH Komplementär UG	Shelf company	Germany	77.21%
Retail Portfolio Teilestraße Objekt UG	Shelf company	Germany	46.33%
Retail Portfolio Wittenauer Straße Objekt UG	Shelf company	Germany	46.33%
Retail Portfolio Bremerhaven Objekt UG	Shelf company	Germany	46.33%
GIMH- Capital GmbH	Intermediate holding company	Germany	73.28%
GAM- Capital GmbH	Intermediate holding company	Germany	77.21%
1. GAM Beteiligungs UG	Intermediate holding company	Germany	77.21%
GxP 2. Vorratsgesellschaft UG	Real Estate company	Germany	77.21%
GxP 3. Vorratsgesellschaft UG	Shelf company	Germany	77.21%
GxP 4. Vorratsgesellschaft UG	Real Estate company	Germany	77.21%
GxP 5. Vorratsgesellschaft UG	Shelf company	Germany	77.21%
GxP 6. Vorratsgesellschaft UG	Shelf company	Germany	77.21%
Summit MSC GmbH	Real Estate company	Germany	94.90%
Summit MSC two GmbH	Real Estate company	Germany	94.90%
Summit MSC five GmbH	Real Estate company	Germany	94.90%
Summit MSC seven GmbH	Real Estate company	Germany	94.90%
Summit MSC Beta GmbH	Real Estate company	Germany	100%
Summit Real Estate Lambda GmbH	Intermediate holding company	Germany	100%
W2005 Projectpauli GmbH	Intermediate holding company	Germany	99.33%
W2005 Pauli 1 BV	Intermediate holding company	Netherlands	94.90%
Deutsche Real Estate AG	Intermediate holding company	Germany	89.98%
DRESTATE Objekt Berlin, Friedrichstraße GmbH & Co. KG	Real Estate company	Germany	89.98%
DRESTATE Objekt Habmurg, Osterfeldstraße GmbH & Co.KG	Real Estate company	Germany	85.41%
GET Grundstücksgesellschaft mbH	Intermediate holding company	Germany	85.12%
DRESTATE Objekt Hamburg, Mendelssohnstraße GmbH & Co. KG	Real Estate company	Germany	89.98%
DRESTATE Objekt Stuttgart, Rosensteinstraße GmbH & Co. KG	Real Estate company	Germany	89.98%
DRESTATE Objekt Berlin, Hauptstraße GmbH & Co. KG	Real Estate company	Germany	89.98%
DRESTATE Objekt Düsseldorf, Bonner Straße GmbH & Co. KG	Real Estate company	Germany	89.98%
DRESTATE Objekt Ludwigshafen, Carl-Bosch-Straße GmbH & Co. KG	Real Estate company	Germany	89.98%
DRESTATE Objekt Böblingen, Otto-Lilienthal-Straße GmbH & Co. KG	Real Estate company	Germany	89.98%

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER, 2018**

**NOTE 26: THE COMPANY'S HOLDINGS AS OF 31 DECEMBER 2018 (Cont.)**

	<b>Principal activity</b>	<b>Country of incorporation</b>	<b>Direct and indirect holdings %</b>
GbR Heidelberg, Mannheimer StraBe	Real Estate company	Germany	78.73%
DRESTATE Objekte Erste GmbH & Co. KG	Real Estate company	Germany	89.98%
DRESTATE Objekte Saarbrücken, kaiserstraBe GmbH & Co. KG	Real Estate company	Germany	89.98%
DRESTATE Objekte Saarbrücken, HafenstraBe GmbH & Co. KG	Real Estate company	Germany	89.98%
DRESTATE Objekte Berlin – Teltow, Potsdamer StraBe GmbH & Co. KG	Real Estate company	Germany	89.98%
DRESTATE Objekte Norderstedt, kohfurth GmbH & Co. KG	Real Estate company	Germany	89.98%
DRESTATE Objekte Hamburg Vierundzwanzigste GmbH & Co. KG	Real Estate company	Germany	89.98%
DRESTATE Objekte Zweite GmbH & Co. KG	Real Estate company	Germany	89.98%
DRESTATE Objekt München, Maria-Probst-Straße GmbH & Co. KG	Real Estate company	Germany	89.98%
Achte TAXXUS Real Estate GmbH	Intermediate holding company	Germany	89.98%
DRESTATE Objekt Seesen, Rudolf-Diesel-Straße GmbH & Co. KG	Real Estate company	Germany	89.98%
DRESTATE Carreé Seestraße GmbH & Co. KG	Real Estate company	Germany	89.98%
K-Witt Kaufzentrum Wittenau GmbH & Co. KG	Real Estate company	Germany	89.98%
DRESTATE Finance GmbH	Inter group financing company	Germany	89.98%
DRESTATE Services GmbH	Service company	Germany	89.98%
Objekt Verwaltungs GmbH Deutsche Real Estate	Intermediate holding company	Germany	44.99%
DRESTATE Objekte Dritte GmbH & Co. KG	Real Estate company	Germany	89.98%
DRESTATE Objekt Hamburg Pinkertweg GmbH	Real Estate company	Germany	89.98%
Beteiligungsgesellschaft Pinkertweg GmbH & Co. KG	Intermediate holding company	Germany	89.98%
Verwaltungsgesellschaft Objekte DRESTATE mbH	Intermediate holding company	Germany	44.99%
Grit 68. Vermögensverwaltungs GmbH	Intermediate holding company	Germany	89.98%
Object Verwaltungsgesellschaft 2013 Drestate mbH	Intermediate holding company	Germany	44.99%
Object Verwaltungsgesellschaft 2015 Drestate mbH	Intermediate holding company	Germany	44.99%
Deutsche Shopping GmbH & Co. KG	Intermediate holding company	Germany	89.98%
K-Witt Kaufzentrum Wittenau II GmbH & Co. KG	Real Estate company	Germany	89.98%
DRESTATE Objekt Gießen-Linden, Robert-Bosch-Straße GmbH & Co. KG	Real Estate company	Germany	89.98%
Verwaltung K-Witt Kaufzentrum Wittenau II GmbH	Intermediate holding company	Germany	89.98%
DRESTATE Wohnen GmbH I.L.	Residual Company	Germany	89.98%
BAKOLA Miteigentumsfonds I Objekt Duisburg - Averdunk	Financial Participation	Germany	63.05%