



ANNUAL REPORT AND ACCOUNTS 2019

SUMMIT
Properties Ltd

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Hafenstr. 16. Saarbrücken

Management Review

Summit Properties Limited 2019 Full Year Results

We are pleased to present the audited results for the year ended 31 December 2019 (“the Reporting Period”) of Summit Properties Limited (“the Company”) and its subsidiaries (“the Group”).

The portfolio’s outperformance in the Reporting Period is an outcome of our ongoing efforts to continue and build the underlying performance of our investment portfolio via intensive asset management of existing assets, new acquisitions and debt refinancing. The outstanding results are summarised below and are further detailed in the Group’s financial statements and accompanying notes.

In the first quarter of 2020 we have proposed a tender offer and delisting to our shareholders. Following the shareholders’ approval, the Company’s shares were delisted on 17 March 2020.

For events related to COVID-19 after the end of the Reporting Period, see note 24 of the Group’s financial statements.

Financial Review

Profits

- Net profit of €137.5 million (FY 2018: €289.6 million)
- Profit Before Tax (PBT) of €166.5 million (FY 2018: €334.2 million)
- EBITDA of €180.9 million (FY 2018: €345.4 million)
- Gross profit of €78.6 million (FY 2018: €64.8 million)
- Earnings Per Share (EPS) 9.6 cents (H1 2018: 17.1 cents)
- The results above include 2019 revaluation profit of €117.8 million (FY 2018: 296.8 million)

NAV

- EPRA Net Asset Value (NAV¹) increased 16.4% to €1,007.6 million (FY 2018: €866.0 million)
- Group NAV 14.4% up to €894.5 million (FY 2018: €782.0 million)
- NAV and EPRA NAV per share of €2.00/€2.26 (FY 2018: €1.71/€1.89)
- Total Assets of €1.71 billion (FY 2018: €1.57 billion)

The major increases in EPRA NAV include €117.8 million revaluation profit, offset mainly by a €3.1 million provision for one-off costs associated with the disposal of an office property, as further explained in Note 5 of the Group’s financial statements. That was supplemented by a €53.2 million Funds From Operations (FFO¹) contribution, offset by a €10.8 million of non-controlling interests and €16.7 million that returned to shareholders via dividend distribution and share buyback.

¹ Alternative performance measures

The Group prepares its financial statements using IFRS. However, it also uses a number of adjusted measures in assessing and managing performance of the business.

EPRA metrics:

Performance measures used by the Group include those defined by EPRA, are designed to enhance transparency and comparability across the European real estate sector. The Group considers these standard metrics to be the most appropriate method of reporting the value of the business and a reconciliation to IFRS numbers is included in note 11(d) of the financial statements.

Funds From Operations (‘FFO’):

The Group considers this measure to be most appropriate when considering its dividend policy as it is a cash measure and it is familiar to non-property and international investors. Funds From Operations is a measure determined by recurring operating profits, deducted by the Group’s interest expenses and excludes other one off expenses or fair value adjustments.

Operational Review

Rent and operations

- Rental income 21.8% up to €82.1 million (FY 2018: €67.4 million)
- Annualised net rent of €78.0 million, equivalent to 5.6% rental yield
- FFO increased 20.0% to €53.2 million (FY 2018: €44.3 million)
- Average rent per sqm per month of €7.1m across the portfolio is lower than ERV
- 92% occupancy over the portfolio's majority
- New leases and renewals for approximately 162,000 sqm, securing rental income of ca. €11.4 million p.a.

Increase in rental income and FFO was mainly attributable to full contributions from the acquisitions completed during the last quarter of 2018. On like-for-like basis, rental income and FFO increased by 3.5% and 2.1%, respectively.

Portfolio

- Portfolio of 102 properties with a Net Market Value (NMV) of €1.4 billion (FY 2018: 103 properties at €1.5 billion NMV)
- Disposal of an office building at €225 million, 7.9% above its 2018 year-end valuation
- Further progress on residential development projects; all 62 units sold; €2.9 million profit recognised in the Reporting Period and is included in the Group's results (FY 2018: €2.5 million).
- Acquisition of an office building of 4,700 sqm in Hannover for a total consideration of approx. €6.5 million post reporting period; The acquisition was financed by a new secured debt facility and the Group's own resources.
- For further analysis and information of the Group's portfolio, see note 5 of the Group's financial statements

Financing and capital resources

- Refinancing of ca. €27 million of short-term debt facilities. New loan provided for a 20-year term at 2.7% fixed interest rate and 3.0% annual amortisation.
- As at the end of the Reporting Period, the Group's Net LTV is approx. 24% (FY 2018: 39.5%) with an average interest rate of 2.2% and average unexpired term of approx. 5.5 years.
- New €4.8 million secured debt facility post Reporting Period to finance the property acquisition in Hannover. Loan is provided for a 10-year term at 1.1% fixed interest rate p.a. and annual amortisation of 3.00%.
- For more information on the Group's debt facilities, see note 7 of the Group's financial statements.

Dividends and equity

- €2.29 million dividend distributions were paid in 2019
- €15.4 million were returned to shareholders through buy-back and cancellation of approx. 12 million shares at an average price of €1.28 per share
- Tender offer and cancellation of the admission of the Company's shares to trading on AIM post Reporting Period; Approx. 124 million shares (being approx. 28% of the Company's issued share capital) were tendered and repurchased by the Company at a price of €1.45 per share.
- Delisting of the Company's shares from AIM on 17 March 2020. For more information, see note 24 of the Group's financial statements.

Main Risks and Uncertainties

Below are the key risks the Group is exposed to during the Reporting Period, the measures taken to mitigate them and additional commentary:

Financial risks:

Risk: Exposure to interest rate movement

Impact: Movement in underlying interest rates could adversely impact the Group's profits and cash flows.

Mitigation: 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.

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. The Group strives to achieve long term financing arrangements and begins to investigate refinancing opportunities well in advance of maturity dates.

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 of directors. Forward funding commitments are only entered into if supported by committed, available funds. As of 31 December 2019, the Group's available cash amounted to approx. €262 million, LTV of 43% and unencumbered assets of approx. €660 million.

Risk: Banking facilities include various covenant requirements

Impact: A failure to meet loan covenants could result in possible default or penalties.

Mitigation: The Group regularly monitors 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 borrowings at levels below the maximum covenant requirements. The group also strives to retain flexibility of substituting security or refinancing loans should it need to. As at 31 December 2019 the Group complies with the covenants included in loan agreements.

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 vacancy costs should significant decrease in demands or devaluation of the portfolio occur.

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.

<i>Risk</i>	Exposure to movements in supply and demand of the investment market
<i>Impact:</i>	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.
<i>Mitigation:</i>	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.
<i>Risk</i>	Major decrease in property values
<i>Impact:</i>	Major decrease in property values may have an impact on the Group's loan to value borrowing covenants.
<i>Mitigation:</i>	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:

<i>Risk:</i>	Changes in government legislation
<i>Impact:</i>	Changes in the government legislation in the jurisdictions the Group is active in may negatively impact the Group which can become chargeable to taxation with a significant impact on performance and strategy.
<i>Mitigation:</i>	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.

COVID-19:

See note 24 of the Group's financial statements.



Deutsche Med, Rostock

Financial statements

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Summit Properties Limited

Opinion

We have audited the consolidated financial statements of Summit Properties Limited and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at 31 December 2019, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2019, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an 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 will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

Brightman Almagor Zohar & Co.

Certified Public Accountants

A Firm in the Deloitte Global Network

Haifa, 21 May 2020

Tel Aviv - Main Office

1 Azrieli Center Tel Aviv, 6701101 P.O.B. 16593 Tel Aviv, 6116402 | Tel: +972 (3) 608 5555 | info@deloitte.co.il

Jerusalem
3 Kiryat Ha'Mada
Har Hotzvim Tower
Jerusalem, 914510
D. BOX 45396

Tel: +972 (2) 501 8888
Fax: +972 (2) 537 4173
info-jer@deloitte.co.il

Haifa
5 Ma'aleh Hashichrur
P.O.B. 5648
Haifa, 3105502

Tel: +972 (4) 860 7333
Fax: +972 (4) 867 2528
info-haifa@deloitte.co.il

Beer Sheva
Ha'Energia St. 77, Building 1
Gav-Yam Negev, Advanced
Technologies Park
Beer Sheva, 8470912

Tel: +972 (8) 690 9500
Fax: +972 (8) 690 9600
info-beersheva@deloitte.co.il

Eilat
The City Center
P.O.B. 583
Eilat, 8810402

Tel: +972 (8) 637 5676
Fax: +972 (8) 637 1628
info-eilat@deloitte.co.il

Nazareth
9 Marj Ibn Amer St.
Nazareth, 16100

Tel: +972 (73) 399 4455
Fax: +972 (73) 399 4455
info-nazareth@deloitte.co.il

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As of 31 December		2019	2018
	<i>Note</i>	<i>Euro (in thousands)</i>	
ASSETS			
NON-CURRENT ASSETS:			
Investment properties	5	1,393,889	1,488,967
Other long-term assets	6	22,492	27,013
Deferred tax assets	17	121	391
Properties for development	22	6,073	5,125
Total non-current assets		<u>1,422,575</u>	<u>1,521,496</u>
CURRENT ASSETS:			
Inventory of buildings under construction	21a	427	2,736
Prepaid expenses and other current assets	9	17,534	15,941
Contract assets	21b	1,273	3,643
Receivables from related parties	13	220	177
Trade receivables, net	8	1,873	2,745
Cash and cash equivalents	10	262,086	19,525
Total current assets		<u>283,413</u>	<u>44,767</u>
Total assets		<u>1,705,988</u>	<u>1,566,263</u>

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As of 31 December		2019	2018
	<i>Note</i>	<i>Euro (in thousands)</i>	
EQUITY AND LIABILITIES			
EQUITY:	11		
Share capital			(*) -
Other reserve		334,585	348,775
Retained gain		559,915	433,194
Equity attributable to the owners of the Company		894,500	781,969
Non-controlling interests		69,934	59,319
Total equity		964,434	841,288
NON-CURRENT LIABILITIES:			
Interest-bearing loans and borrowings	7	585,077	576,789
Other long-term financial liabilities	6	1,642	2,519
Derivative financial liabilities	18	2,052	965
Deferred tax liability	17	111,169	83,503
Total non-current liabilities		699,940	663,776
CURRENT LIABILITIES:			
Interest-bearing loans and borrowings	7	10,269	26,299
Payables to related parties	13	3,617	2,548
Current tax liabilities		811	1,576
Trade and other payables	14	26,917	30,776
Total current liabilities		41,614	61,199
Total liabilities		741,554	724,975
Total equity and liabilities		1,705,988	1,566,263
NAV/Share (cent)	11	201.00	171.00
EPRA NAV/Share (cent)	11	226.31	189.39

(*) No par value.

21 May, 2020

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

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For The Year ended 31 December		2019	2018
	<i>Note</i>	<i>Euro (in thousands)</i>	
Rental income		82,052	67,376
Revenues from sale of apartments		13,999	9,905
Operating expenses		(6,397)	(5,390)
Cost of sale of apartments		(11,103)	(7,096)
Gross profit		78,551	64,795
General and administrative expenses	15	(11,375)	(9,258)
Fair value adjustments of investment properties	5	117,836	296,840
Other expenses		(4,360)	(7,489)
Operating profit		180,652	344,888
Financial income	16	1,723	3,051
Financial expenses	16	(15,896)	(13,718)
Total financial expenses		(14,173)	(10,667)
Profit before taxes on income		166,479	334,221
Tax expenses	17	(28,999)	(44,639)
Profit for the year		137,480	289,582
Other comprehensive income and expenses:			
Items that may be reclassified subsequently to profit or loss:			
Reclassification to profit and loss of ineffective hedging reserve, net		-	223
Changes in hedging instruments entered into for cash flow hedges		(640)	-
Reclassification to profit and loss of hedging reserve, net		-	1,573
		(640)	1,796
Items that will not be reclassified subsequently to profit or loss:			
Net gain arising on revaluation of financial assets through OCI		697	-
		57	1,796
Total comprehensive income for the year		137,537	291,378
Profit for the year attributable to:			
Owners of the Company		126,721	263,330
Non-controlling interests		10,759	26,252
		137,480	289,582
Total comprehensive income attributable to:			
Owners of the Company		126,763	265,022
Non-controlling interests		10,774	26,356
		137,537	291,378
Earnings Per Share:			
Basic (Euro per share)	12	0.278	0.566
Diluted (Euro per share)		0.278	0.566

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>					
Balance at 1 January 2018	(*) -	370,553	162,748	533,301	32,791	566,092
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
Total comprehensive profit	-	1,692	263,330	265,022	26,356	291,378
Dividend distribution (note 11C)	-	(13,970)	-	(13,970)	-	(13,970)
Buy back of shares (note 11F)	-	(9,500)	-	(9,500)	-	(9,500)
Acquisition of non-controlling interest (note 11G)	-	-	7,116	7,116	(18,405)	(11,289)
Additional non-controlling interest on acquisition of subsidiary (note 5C)	-	-	-	-	18,577	18,577
Balance at 31 December 2018	(*) -	348,775	433,194	781,969	59,319	841,288
Profit for the year	-	-	126,721	126,721	10,759	137,480
Other comprehensive profit for the year, net of income tax	-	42	-	42	15	57
Total comprehensive profit	-	42	126,721	126,763	10,774	137,537
Dividend distribution (note 11C)	-	(2,286)	-	(2,286)	-	(2,286)
Buy back of shares (note 11F)	-	(15,504)	-	(15,504)	-	(15,504)
Transactions with the company's controlling shareholder	-	3,558	-	3,558	-	3,558
Acquisition of non-controlling interest (note 5C)	-	-	-	-	(159)	(159)
Balance at 31 December 2019	(*) -	334,585	559,915	894,500	69,934	964,434

(*) 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****2019****2018***Euro (in thousands)*

Cash flows from operating activities:		
Profit for the year	137,480	289,582
Adjustments for:		
Deferred taxes	28,437	43,324
Financial expenses, net	14,173	10,667
Fair value adjustment of investment properties	(117,836)	(296,840)
Transactions with the company's shareholder	3,558	-
Depreciation of property, plant and equipment	179	86
Amortisation and impairment of intangible assets	29	39
Other long term Assets	45	(363)
	<u>(71,415)</u>	<u>(243,087)</u>
 Changes in operating assets and liabilities:		
Decrease (increase) in trade receivables	3,242	(4,523)
(Decrease) increase in trade and other payables	(4,768)	4,129
Increase in payables to related parties and shareholders	1,045	735
Decrease in inventors of buildings under construction	1,360	264
Decrease in prepaid expenses and other current assets	1,697	321
(Decrease) increase in other non-current liabilities	(239)	127
	<u>2,337</u>	<u>1,053</u>
 Net cash flows from operating activities	<u>68,402</u>	<u>47,548</u>
 Cash flows from investing activities:		
Payments for property, plant and equipment	(76)	(71)
Net cash outflow on acquisition of asset and liabilities	-	(31,942)
Net cash outflow on business combination	-	(44,066)
Change in deposits and designated cash	(3,800)	139
Change in loans to third party	6,564	(1,624)
Additions to investment properties	(12,086)	(11,615)
Proceeds from sale of investment property	225,000	54,867
Interest income received	-	9
 Net cash flows from (used in) investing activities	<u>215,602</u>	<u>(34,303)</u>
 Cash flows from financing activities:		
Proceeds from borrowings from banks	29,172	300,000
Repayment of borrowings from related parties	-	(22,738)
Repayment of borrowings	(38,935)	(235,274)
Finance expense paid	-	(13,471)
Interest expense paid	(13,731)	(10,193)
Net cash outflow on acquisition of non-controlling interest	(159)	(11,289)
Buy back of shares	(15,504)	(9,500)
Dividend distribution	(2,286)	(13,970)
 Net cash flows used in financing activities	<u>(41,443)</u>	<u>(16,435)</u>
 Decrease in cash and cash equivalents	242,561	(3,190)
Cash and cash equivalents at beginning of the year	19,525	22,715
Cash and cash equivalents at end of the year	<u>262,086</u>	<u>19,525</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, 2019

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.

In February 2019, the Company changed its name from Summit Germany Limited to Summit Properties Limited.

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.

The consolidated financial statements have been prepared on the historical cost basis except for investment properties and certain 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 IFRS 16, and measurements that have some similarities to fair value but are not fair value, such as value in use in IAS 36.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER, 2019

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.

For further information regarding the reportable 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 incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries) made up to 31 December each year. Control is achieved when the Company:

- has the power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affects its returns.

The Company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Consolidation of a subsidiary begins when the Company obtains control over the subsidiary and ceases when the Company loses control of the subsidiary. Specifically, the results 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.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used into line with the Group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between the members of the Group are eliminated on consolidation.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER, 2019

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

Basis of consolidation (cont.):

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.

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 the 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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER, 2019

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, 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 measured based on the consideration to which the Group expects to be entitled in a contract with a customer and excludes amounts collected on behalf of third parties. The Group recognizes revenue when it transfers control of a product or service to a customer. The following specific recognition criteria must also be met before revenue is recognised:

Rental income:

The Group enters into lease agreements as a lessor with respect to its investment properties. Such leases are classified as operating leases in accordance with IFRS 16.

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease. 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. Such contracts are entered into before construction of the residential properties begins. 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.

The Group becomes entitled to invoice customers for construction of residential properties based on achieving a series of performance-related milestones. When a particular milestone is reached the customer is sent an invoice for the related milestone payment. The Group will previously have recognised a contract asset for any work performed. Any amount previously recognised as a contract asset is reclassified to trade receivables at the point at which it is invoiced to the customer. If the milestone payment exceeds the revenue recognised to date under the cost-to-cost method then the Group recognises a contract liability for the difference. There is not considered to be a significant financing component in construction contracts with customers as the period between the recognition of revenue under the cost-to-cost method and the milestone payment is always less than one year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER, 2019

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

Foreign currencies:

In preparing the financial statements of the Group 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:

The 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 the tax expected to be payable or recoverable on 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, and is accounted for using the liability method. 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 arising on investments in subsidiaries and associates, 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER, 2019

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

Taxes: (Cont.)

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.

For the purposes of measuring deferred tax liabilities and deferred tax assets for investment properties that are measured using the fair value model, the carrying amounts of such properties are presumed to be recovered entirely through sale.

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 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.

Classification of financial assets

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER, 2019

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

Financial instruments (Cont.)

Financial assets (Cont.)

Classification of financial assets (Cont.)

Debt instruments that meet the following conditions are measured subsequently at fair value through other comprehensive income (FVTOCI):

- the financial asset is held within a business model whose objective is both to collect the contractual cash flows and to sell the debt instruments, 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.

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 effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period.

The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) excluding expected credit losses, through the expected life of the debt instrument, or, where appropriate, a shorter period, to the gross carrying amount of the debt instrument on initial recognition.

The amortised cost of a financial asset is the amount at which the financial asset is measured at initial recognition minus the principal repayments, plus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, adjusted for any loss allowance. The gross carrying amount of a financial asset is the amortised cost of a financial asset before adjusting for any loss allowance.

Interest income is recognised using the effective interest method for debt instruments measured subsequently at amortised cost. For financial assets other than purchased or originated credit-impaired financial assets, interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired (see below).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER, 2019

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

Financial instruments (Cont.)

Financial assets (Cont.)

For financial assets that have subsequently become credit-impaired, interest income is recognised by applying the effective interest rate to the amortised cost of the financial asset. If, in subsequent reporting periods, the credit risk on the credit-impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognised by applying the effective interest rate to the gross carrying amount of the financial asset.

For purchased or originated credit-impaired financial assets, the Group recognises interest income by applying the credit-adjusted effective interest rate to the amortised cost of the financial asset from initial recognition. The calculation does not revert to the gross basis even if the credit risk of the financial asset subsequently improves so that the financial asset is no longer credit-impaired.

(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.

(iii) Financial assets at FVTPL

Financial assets that do not meet the criteria for being measured at amortised cost or FVTOCI are measured at FVTPL.

Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any fair value gains or losses recognised in profit or loss to the extent they are not part of a designated hedging relationship (see hedge accounting policy). The net gain or loss recognised in profit or loss includes any dividend or interest earned on the financial asset.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER, 2019

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

Financial instruments (Cont.)

Financial assets (Cont.)

Impairment of financial assets

The Group recognises a loss allowance for expected credit losses on investments in debt instruments that are measured at amortised cost - trade receivables and contract assets. The amount of expected credit losses is updated at each reporting date .

The Group recognises lifetime ECL (expected credit losses) for trade receivables and contract assets. The expected credit losses on these financial assets are estimated based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors and the economic environment. This is further enhanced with specific provisions where this is deemed appropriate by management.

For other financial instruments, the Group recognises lifetime ECL when there has been a significant increase in credit risk since initial recognition. However, if the credit risk on the financial instrument has not increased significantly since initial recognition, the Group measures the loss allowance for that financial instrument at an amount equal to 12-month ECL.

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.

Repurchase of the Company's own equity instruments is recognised and deducted directly in equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Company's own equity instruments.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER, 2019

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

Financial instruments (Cont.)

Financial liabilities and equity (Cont.)

Financial liabilities

Financial liabilities measured subsequently at amortised cost

Financial liabilities that are not (i) contingent consideration of an acquirer in a business combination, (ii) held for trading, or (iii) designated as at FVTPL, are measured subsequently at amortised cost using the effective interest method.

All of the Group 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 is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or (where appropriate) a shorter period, to the amortised cost of a financial liability.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER, 2019

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

Derivative financial instruments

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

Further details of derivative financial instruments are disclosed in note 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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER, 2019

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

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.

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 cash equivalents:

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER, 2019

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

Provisions:

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable the Group will be required to settle that obligation and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the reporting date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (when the effect of the time value of money is material).

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

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

In applying the Group's accounting policies, which are described in Note 2 above, management is required to make judgements that have a significant impact on the amounts recognised and to make estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

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.

Key sources of estimation uncertainty:

The key assumptions concerning the future, and other key sources of estimation uncertainty at the reporting period that may 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 at least 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER, 2019

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

Key sources of estimation uncertainty (Cont.):

- **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:

The following are the critical judgements that the management has made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in financial statements.

- **Business combination or acquisition of assets**

In respect with the transactions detailed in Note 5, the Group Management has reviewed the characteristics of the transactions in accordance with the requirements of IFRS 3. When reaching a conclusion regarding applying appropriate accounting treatment, the Management 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 in 2018, the management considered 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 latter 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, 2019

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 16 Leases

In the current year, the Group has applied IFRS 16 (as issued by the IASB in January 2016) that is effective for annual periods that begin on or after 1 January 2019.

IFRS 16 introduces new or amended requirements with respect to lease accounting. It introduces significant changes to lessee accounting by removing the distinction between operating and finance lease and requiring the recognition of a right-of-use asset and a lease liability at commencement for all leases, except for short-term leases and leases of low value assets. In contrast to lessee accounting, the requirements for lessor accounting have remained largely unchanged.

This standard have insignificant effect on the financial statements.

IFRIC 23 *Uncertainty over Income Tax Treatments*

The Group has adopted IFRIC 23 for the first time in the current year. IFRIC 23 sets out how to determine the accounting tax position when there is uncertainty over income tax treatments. The Interpretation requires the Group 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 Group 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 Group should reflect the effect of uncertainty in determining its accounting tax position using either the most likely amount or the expected value method.

New and revised IFRSs in issue but not yet effective

At the date of authorisation of these financial statements, the Group has not applied the following new and revised IFRS Standards that have been issued but are not yet effective

Amendments to IAS 1 and IAS 8 *Definition of material*

The amendments are intended to make the definition of material in IAS 1 easier to understand and are not intended to alter the underlying concept of materiality in IFRS Standards. The concept of 'obscuring' material information with immaterial information has been included as part of the new definition.

The threshold for materiality influencing users has been changed from 'could influence' to 'could reasonably be expected to influence'.

The definition of material in IAS 8 has been replaced by a reference to the definition of material in IAS 1. In addition, the IASB amended other Standards and the *Conceptual Framework* that contain a definition of material or refer to the term 'material' to ensure consistency.

The amendments are applied prospectively for annual periods beginning on or after 1 January 2020, with earlier application permitted.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER, 2019

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

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

Amendments to IFRS 3 *Definition of a business*

The amendments clarify that while businesses usually have outputs, outputs are not required for an integrated set of activities and assets to qualify as a business. To be considered a business an acquired set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create outputs.

Additional guidance is provided that helps to determine whether a substantive process has been acquired.

The amendments introduce an optional concentration test that permits a simplified assessment of whether an acquired set of activities and assets is not a business. Under the optional concentration test, the acquired set of activities and assets is not a business if substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or group of similar assets.

The amendments are applied prospectively to all business combinations and asset acquisitions for which the acquisition date is on or after the first annual reporting period beginning on or after 1 January 2020, with early application permitted.

Amendments to IAS 1 *Classification of Liabilities as Current or Non-current*

The amendments affect only the presentation of liabilities in the statement of financial position — not the amount or timing of recognition of any asset, liability income or expenses, or the information that entities disclose about those items. They:

- Clarify that the classification of liabilities as current or non-current should be based on rights that are in existence at the end of the reporting period and align the wording in all affected paragraphs to refer to the "right" to defer settlement by at least twelve months and make explicit that only rights in place "at the end of the reporting period" should affect the classification of a liability;
- Clarify that classification is unaffected by expectations about whether an entity will exercise its right to defer settlement of a liability; and
- Explain that rights are in existence if covenants are complied with at the end of the reporting period.
- Introduce a definition of 'settlement' to make clear that settlement refers to the transfer to the counterparty of cash, equity instruments, other assets or services.

The amendments are effective for annual reporting periods beginning on or after 1 January 2022 and are to be applied retrospectively. Earlier application is permitted.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER, 2019

NOTE 5: INVESTMENT PROPERTIES

A. Changes in years 2018 and 2019

	Euro in thousands
Balance at 1 January 2018	938,863
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>1,488,967</u>
Additions for the year	12,086
Disposals during the year (D)	(225,000)
Fair value adjustments during the year	117,836
Balance at 31 December 2019	<u>1,393,889</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, 2019

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 lease agreements, 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 (2018: €5-20); for retail properties, between €4-19 per month per square meter (2018: €4-19); for logistics properties between €2-13 per month per square meter (2018: €2-12). For office, commercial and logistics properties, discount rates range between 3.3 % - 8.8% (2018: 4% - 8%).

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 2019				As 31 December 2018			
	Offices	Logistic	Retail	Total	Offices	Logistic	Retail	Total
	Sqm				Sqm			
	601,065	341,359	61,442	1,003,866	658,183	341,609	67,313	1,067,105
Percent of total assets	60%	34%	6%	100%	62%	32%	6%	100%

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER, 2019

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 2019				As 31 December 2018			
	Offices(*)	Logistic	Retail	Total	Offices(*)	Logistic	Retail	Total
	Euro in thousands				Euro in thousands			
	1,020,229	296,730	76,930	1,393,889	1,131,527	280,520	76,920	1,488,967
Percent of total assets	73%	21%	6%	100%	76%	19%	5%	100%

(*) Including fair value of associated building rights.

NOI – analysis by use

	As 31 December 2019				As 31 December 2018			
	Offices	Logistic	Retail	Total	Offices	Logistic	Retail	Total
	Euro in thousands				Euro in thousands			
	53,516	17,402	4,737	75,655	44,226	13,916	3,844	61,986
Percent of total assets	71%	23%	6%	100%	71%	23%	6%	100%

Adjustment to fair value – analysis by use

	As 31 December 2019				As 31 December 2018			
	Offices	Logistic	Retail	Total	Offices	Logistic	Retail	Total
	Euro in thousands				Euro in thousands			
	102,237	12,704	2,895	117,836	253,158	38,567	5,115	296,840
Percent of total assets	87%	11%	2%	100%	85%	13%	2%	100%

Average rent

	Offices		Logistic		Retail	
			As 31 December			
	2019	2018	2019	2018	2019	2018
€/sqm/month	8.5	8.4	4.7	4.6	8.0	7.7
Range €	(5.0-20.0)	(5.0-20.0)	(2.2-12.8)	(2.2-12.3)	(4.2-19.3)	(4.2-18.8)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER, 2019

NOTE 5: INVESTMENT PROPERTIES (Cont.)

C. Additions

1. 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 of 0.2% interest 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. The assets and liabilities acquired were as follows:

	30 SEPTEMBER
	2018
	Euro in thousands
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)
Differed 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

2. 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 centres 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). The assets and liabilities acquired were as follows:

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER, 2019

NOTE 5: INVESTMENT PROPERTIES (Cont.)

C. Additions (Cont.)

2. Cont.

	<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

3. In December 2019, GxP has signed an agreement to acquire an office building of 4,700 sqm in Hannover for total acquisition cost of ca. €6.5 million. The acquisition was completed after the end of the reporting period and was financed by a new secured debt facility and Group's own resources.

D. Disposals

- During 2018 the Group sold an asset for €3.5 million (consideration was similar to asset carrying amount).
- In December 2019, the Company sold a German office building for a consideration of €225 million, 7.9% above its €208.6 million valuation as at 31 December 2018. The property's annual rental income as of 31 December 2018 totaled €4.62 million p.a., reflecting a rental yield of 2.1%.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER, 2019

NOTE 6: OTHER LONG-TERM ASSETS AND LIABILITIES

	31 December	
	2019	2018
	Euro in thousands	
<u>Other long-term financial assets:</u>		
Financial assets measured at fair value through OCI (1)	4,518	3,851
Long-term loans receivable measured at amortised costs (2)	8,081	11,786
Financial assets measured at fair value through profit and loss (3)	8,640	9,495
Other financial assets	591	1,622
Total long term financial assets	<u>21,830</u>	<u>26,754</u>
<u>Other long-term non-financial assets</u> (4)	<u>662</u>	<u>259</u>
<u>Other long-term financial liabilities:</u>		
Other financial liabilities	<u>1,642</u>	<u>2,519</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 including loans to third parties. The decrease is mainly due to repayment of part of a loan provided during 2017 to the purchaser of properties, and classification of the rest of the balance to short term (it was repaid in January 2020).

(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. As of the end of the reporting period, the fair value of the loans is €16.4 million (including an amount of €7.8 million, which is presented in short term assets, in the prepaid expenses and other current assets line item).

(4) Other long-term non-financial assets:

As of 31 December 2019, the balance is mainly due to the impact of adopting IFRS 16 starting from 1 January 2019, whereby a right of use assets has been recognized for the Group's leased office premises.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER, 2019

NOTE 7: INTEREST - BEARING LOANS AND BORROWING

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

			31 December	
	Effective interest rate	Maturity	2019	2018
	%		Euro in thousands	
Current:				
Current maturities of long term loans	1.7-2.7	2020	10,269	26,299
Non-current:				
Long term loans and borrowings	1.7-2.7	2021-2038	585,077	576,789

- A.** In February 2018, the Group acquired from one of its lenders a loan secured over several Group properties for a consideration of €12.2 million.
- B.** 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.
- C.** 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.
- D.** According to several financing agreements, the borrowing entities must comply with several covenants as follow:
1. Loan To Value ratio (LTV):
For a loan in amount of €29 million as at 31 December 2019 the borrowing entity must comply with a ratio up to 65%.
 2. Debt Service Cover Ratio (DSCR):
The borrowing entities must comply with ratio ranging from 125% to 225% as determined in the relevant financing agreement.
 3. Weighted Average Lease Term (WAULT):
The borrowing entities must comply with WAULT of above two or three years as determined in the relevant financing agreement.

As at December 31, 2019 the borrowing entities comply with all the covenants set in their financing agreements.

- E.** In March 2019, the Company refinanced approximately €27 million of short term debt facilities, which were at an interest rate of 2.1% and secured by three properties. A new loan of approximately €29m was provided by a German lender for a 20 year term at a fixed interest rate of 2.7% p.a. and annual amortisation rate of 3.0%. The loan is secured by the same Company's properties and bears no covenants.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER, 2019

NOTE 7: INTEREST - BEARING LOANS AND BORROWING (CONT.)

- F.** The outstanding costs of raising loans as of 31 December, 2019 are €5.05 million (2018: €6 million). These are presented net of interest-bearing loans and borrowings and amortised over the period of the loans.
- G.** The Company and the lender of a loan agreed to accept a back to back guarantee by the company in amount of 2.5m` regarding a loan in a subsidiary after releasing the guaranty of the former owners.

NOTE 8: TRADE RECEIVABLES

	31 December	
	2019	2018
	Euro in thousands	
Trade receivables	2,383	2,723
Trade receivables from sale of apartments	68	517
Provision for doubtful debts	(578)	(495)
	<u>1,873</u>	<u>2,745</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:

	Total	< 30 days	30 - 60 days	60 - 90 day	90 - 120 day	>120 days
	Euro in thousands					
2019	1,873	539	159	193	28	954
2018	2,745	947	608	349	64	777

Movements in the provision for doubtful debts:

	Euro in thousands
At 1 January 2018	600
Released	(28)
Utilised	(77)
At 31 December 2018	<u>495</u>
Released	251
Utilised	(168)
At 31 December 2019	<u>578</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER, 2019

NOTE 9: PREPAID EXPENSES AND OTHER CURRENT ASSETS

	31 December	
	2019	2018
	Euro in thousands	
Prepaid expenses and other	12,113	14,195
Service charge	-	125
Designated cash (*)	5,421	1,621
	<u>17,534</u>	<u>15,941</u>

(*) Including €3.3 million designated for debt service of a company's credit facility scheduled to January 2020.

NOTE 10: CASH AND CASH EQUIVALENTS

	31 December	
	2019	2018
	Euro in thousands	
Cash at banks	<u>262,086</u>	<u>19,525</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:

	Issued and outstanding Number of shares
At 1 January 2018	465,399,862
Change in the period (note 11G)	(8,119,658)
At 31 December 2018	<u>457,280,204</u>
Change in the period (note 11G)	(12,045,000)
At 31 December 2019	<u>445,235,204</u>

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 2019 is €331.1 million (as of 31 December 2018 – €348.8 million). This balance is included in other reserves. The change during the year derived from dividends distributed in 2018 (as detailed in C below), from a share buy-back (as detailed in F below) and from transaction with the controlling shareholder (as detailed in 13B 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER, 2019

NOTE 11: SHARE CAPITAL (Cont.)

C. Distribution of dividends:

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.

In September 2019, the Company announced a dividend of €2.29 million, reflecting 0.50 cents per share, the dividend was paid on October 31, 2019.

D. NAV and EPRA NAV:

	As of 31 December 2019		As of 31 December 2018	
	€, thousands	€, per share	€, thousands	€, per share
NAV (*)	894,500	2.00	781,969	1.71
Financial derivatives	2,052		965	
Deferred Tax, net	111,048		83,112	
EPRA NAV (**)	1,007,600	2.26	866,046	1.89

(*) Net Asset Value

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

E. In February 2019 the Company obtained Ba1 issuer rating by Moody's.

F. Share buy-back:

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.

In October 2019, the Company has repurchased and cancelled 12,045,000 ordinary shares of no par value in the capital of the Company at average purchase price of €1.28 per share, returning €15.5 million to shareholders. Following the buy-back, the Company has 445,235,204 ordinary shares in issue and admitted to trading on AIM with no ordinary shares in treasury.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER, 2019

NOTE 11: SHARE CAPITAL (Cont.)

G. Transaction with non-controlling interests:

During 2018, 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 5C.

NOTE 12: EARNINGS PER-SHARE

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

	Year ended 31 December	
	2019	2018
	Euro in thousands	
Earnings		
Earnings for the purposes of basic earnings per share being net profit attributable to owners of the Company	126,721	263,330
	Year ended 31 December	
	2019	2018
	In thousands	
Number of shares		
Weighted average number of ordinary shares for the purposes of the basic earnings per share	455,273	464,866
Earnings Per Share:		
	Year ended 31 December	
	2019	2018
Basic (Euro per share)	0.28	0.57
Diluted (Euro per share)	0.28	0.57

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER, 2019

NOTE 13: BALANCES AND TRANSACTIONS WITH RELATED PARTIES

	<u>Amounts owed by related parties</u>		<u>Amounts owed to related parties</u>	
	<u>31 December</u>		<u>31 December</u>	
	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
	<u>Euro in thousands</u>		<u>Euro in thousands</u>	
Related parties	220	177	3,617	2,548
	<u>220</u>	<u>177</u>	<u>3,617</u>	<u>2,548</u>

As of December 31, 2019, Summit Real Estate Holdings Ltd ("**SHL**") holds approximately 69.79% 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 balance owed to related parties includes a provision for management fees to SMC (including a provision for a performance-based compensation) of €3,346 thousand including Special Bonus provision as detailed below (2018: €2,470 thousand).

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

A. Compensation of key management personnel:

	<u>2019</u>	<u>2018</u>
	<u>Euro in thousands</u>	
Directors' fees	378	364
Management fees	1,500	1,500
Special Bonus (note 13B)	3,185	-
Total compensation paid to key management personnel	<u>5,063</u>	<u>1,864</u>

(*) This is the net amount which represents total amount owed to the controlling shareholder as a result of the Special Bonus (as detailed in note 13B), after the change in the special bonus mechanism at the end of 2019 (as detailed in note 13B).

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 and is calculated based on 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, 2019**

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

B. Terms and conditions of the management agreement (cont.):

The annual performance-based bonus entitlement of SMC is capped at a maximum of €750,000 per annum.

As at 31 December 2019 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.

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 a result of the transaction mentioned in note 5D, the threshold triggering a special bonus was met in the first half of 2019. Therefore, during the first half of 2019, the Company recorded a provision for the Special Bonus in the amount of €6.4 million (the expense was recorded in the other expenses line item in profit and loss).

By the end of 2019, it was decided to extend the management agreement with SMC until 31 December 2022. As part of the amendment to the management agreement, it was clarified that the right of the management company to the Special Bonus will remain in effect, provided that the profit from the a qualifying sale or series of sales of any properties that will occur during the extension period will be calculated in relation to the value of the company's properties as of June 30, 2019. It was further clarified that the Special Bonus would also apply in relation to a partial sale of properties that would meet the profitability conditions described above.

In addition, by the end of 2019, it was agreed that half of the Special Bonus that accrued until the end of 2019 (including the performance-based bonus) will be paid in 2021, subject to a pre-tax profit of the Group for 2020 not to be less than €70 million. This amount (€3.5 million) was credited directly to the Company's Equity under Other Reserve balance, as a transaction with the Company's controlling shareholder.

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.

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").

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER, 2019

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 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 2019, the Shortfall is approximately €257.9 million. Therefore, the likelihood that SMC would be entitled to receive any carried interest is low.

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

	31 December	
	2019	2018
	Euro in thousands	
Accrued expenses	8,968	4,233
Accrued interest	2,769	2,660
Service charge prepayments	532	-
VAT	675	1,268
Provisions	7,470	14,196
Trade accounts payable	4,269	4,248
Other	2,234	4,171
	<u>26,917</u>	<u>30,776</u>

NOTE 15: GENERAL AND ADMINISTRATIVE EXPENSES

	Year ended 31 December	
	2019	2018
	Euro in thousands	
Management and directors' fees (a)	2,771	2,268
Professional fees (b)	2,192	2,153
Salaries (c)	4,420	3,486
Administration fees	190	129
Office expenses	475	249
Other expenses	1,327	973
	<u>11,375</u>	<u>9,258</u>

(a) See note 13 for details of the management agreement.

(b) Professional fees include audit fees in the amount of €308 thousand (2018: €305 thousand).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER, 2019

NOTE 16: FINANCIAL EXPENSES (INCOME)

	Year ended 31 December	
	2019	2018
	Euro in thousands	
Financial expenses:		
Interest on borrowings	13,841	10,763
Amortisation of cost of raising loans (a)	1,140	2,955
Other	915	-
Total financial expenses	<u>15,896</u>	<u>13,718</u>
Financial income:		
Total financial income (b)	<u>1,723</u>	<u>3,051</u>

- (a) 2018 includes €2.14 million write-off following the loans repayment as detailed in note 7.
(b) In previous years financial income results mainly from accrued interest on loans detailed in note 6(3).

NOTE 17: TAXATION

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

	Year ended 31 December	
	2019	2018
	Euro in thousands	
<u>Current income tax:</u>		
Current income tax charge	1,039	1,315
<u>Deferred income tax (See C):</u>		
Relating to origination and reversal of temporary differences	<u>27,960</u>	<u>43,324</u>
Income tax expense reported in the statement of comprehensive income	<u>28,999</u>	<u>44,639</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 2019 is 15.825% (31 December 2019: 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, 2019

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:

	Year ended 31 December	
	2019	2018
	Euro in thousands	
Profit before taxes on income	166,479	334,221
Tax at the statutory tax rate in Germany (15.825%)	26,345	52,890
Increase (decrease) in respect of:		
Losses for which deferred taxes were not recorded	(1,628)	(5,857)
Effect of different tax rate	(2,076)	(6,201)
Non-deductible expenses, net	2,457	1,583
Difference between tax and reporting GAAP	2,716	3,080
Other	1,184	(856)
Income tax expense	28,999	44,639

C) Deferred income tax:

	Consolidated statement of financial position	
	2019	2018
	Euro in thousands	
<u>Deferred tax asset (liability)</u>		
Revaluations of investment properties to fair value	(132,194)	(106,365)
Losses carried forward	19,757	20,862
Revaluations of financial instruments	172	153
Provisions	457	1,388
Other	760	850
Deferred tax liabilities, net	(111,048)	(83,112)

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:

	Consolidated statement of financial position	
	2019	2018
	Euro in thousands	
Deferred tax asset	121	391
Deferred tax liability	(111,169)	(83,503)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER, 2019

NOTE 17: TAXATION (Cont.)

C) Deferred income tax (Cont.):

	Consolidated statement of comprehensive loss (income)	
	2019	2018
	Euro in thousands	
<u>Deferred tax expense (income)</u>		
Revaluations of investment properties to fair value	25,829	51,374
Losses carried forward	1,105	(7,278)
Provisions	931	(1,133)
Other	95	361
Increase in deferred tax	<u>27,960</u>	<u>43,324</u>

	Other comprehensive loss	
	2019	2018
	Euro in thousands	
<u>Deferred tax expense (income)</u>		
Revaluations of financial instruments	24	-
Increase in deferred tax	<u>24</u>	<u>-</u>

D) Group's carried forward tax losses in Germany for which deferred taxes were not recognised are approximately €38 million (2018: €51 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, loans to third parties and cash and cash equivalents.

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, 2019

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 2019 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 2019, the Group have immaterial financial instruments allocated to interest hedging transactions entered into Multi. Approximately €515 million of Interest bearing loans and borrowings are at a fixed interest rate.

- **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 2019, 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, 2019

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 2019					
	Up to 1 year	1-2 years	2-3 years	3-4 years	> 4 years	Total
	Euro in thousands					
Interest bearing loans and borrowings	23,520	80,512	55,585	18,552	488,572	666,741
Trade and other payables	19,447	-	-	-	-	19,447
Other liabilities	304	841	44	46	2,459	3,694
Payables to related parties and shareholders	3,617	-	-	-	-	3,617
	46,888	81,353	55,629	18,598	491,031	693,499

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER, 2019

NOTE 18: FINANCIAL INSTRUMENTS (Cont.)

Liquidity risk: (Cont.)

	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>

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 adjusts 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 2019, 31 December 2018.

The gearing ratios at 31 December 2019 and 31 December 2018 were as follows:

	2019	2018
	Euro in thousands	
Non-current interest bearing loans and borrowings	587,129	577,754
Current loans and borrowings	10,269	26,299
Less cash and cash equivalents	(262,086)	(19,525)
Net debt	<u>335,312</u>	<u>584,528</u>
Equity	<u>964,434</u>	<u>841,288</u>
Total capital	<u>1,299,746</u>	<u>1,425,816</u>
Gearing ratio	<u>26%</u>	<u>41%</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER, 2019

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 2019				
	Level 1	Level 2	Level 3	Total
	Euro in thousands			
Non - Financial assets:				
Investment properties (note 5)	-	-	1,393,889	1,393,889
Financial assets				
Financial assets measured at fair value through profit and loss (a)	-	-	16,440	16,440
Financial assets at FVTOCI (b)	-	-	4,518	4,518
Total	-	-	1,414,847	1,414,847
Financial liabilities				
Derivative instruments – swaps (c)	-	(2,052)	-	(2,052)

31 December 2018				
	Level 1	Level 2	Level 3	Total
	Euro in thousands			
Non - Financial assets:				
Investment properties (note 5)	-	-	1,488,967	1,488,967
Financial assets				
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
Financial liabilities				
Derivative instruments – swaps (c)	-	(965)	-	(965)

- (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, 2019

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.

(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 were consolidated (for further details see note 5).

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 2019</u>	<u>Financing cash flows</u>	<u>Acquisition of subsidiary</u>	<u>Fair value adjustments</u>	<u>Other changes</u>	<u>31 December 2019</u>
Interest-bearing loans and borrowings	603,088	(9,763)	-	-	2,021	595,346
Derivative financial liabilities	965	-	-	1,087	-	2,052

	<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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER, 2019

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 3.8 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	
	2019	2018
	Euro in thousands	
Within one year	74,593	81,592
After one year but not more than five years	175,489	216,077
More than five years but not more than ten years	57,348	76,634
More than ten years but not more than fifteen years	10,056	14,431
More than fifteen years	2,362	3,335
	<u>319,847</u>	<u>392,069</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 2019, the percentage of the project completion is 86% (percentage of completion is calculated based on costs incurred to date out of total projected costs). All units were sold.

A. Composition of inventory of buildings under construction

	31 December	
	2019	2018
	Euro in thousands	
Cost of the land	427	1,080
Cost of construction	-	1,656
	<u>427</u>	<u>2,736</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER, 2019

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

B. Contract assets

	31 December	
	2019	2018
	Euro in thousands	
Construction contracts	<u>1,273</u>	<u>3,643</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. The Group will previously have recognised a contract asset for any work performed. Any amount previously recognised as a contract asset is reclassified to trade receivables at the point at which it is invoiced to the customer.

NOTE 22: PROPERTIES FOR DEVELOPMENT

The Group is developing 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 during the reporting period.

Composition of Properties for development:

	31 December	
	2019	2018
	Euro in thousands	
Cost of the land	4,000	4,000
Cost capitalised to the land	<u>2,073</u>	<u>1,125</u>
	<u>6,073</u>	<u>5,125</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.

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, 2019

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.

Year ended December 31, 2019:

	<u>Investment Properties</u>	<u>Residential Development</u>	<u>Total</u>
	<u>Euro in thousands</u>		
Income	82,052	13,999	96,051
Segment profit (*)	177,756	2,896	180,652
Expenses not allocated to the segment			-
Operating profit			180,652
Finance expenses, net			(14,173)
Tax expenses			(28,999)
Net income			137,480
(*) Includes revaluation gain of investment properties	117,836	-	117,836
	<u>Investment Properties</u>	<u>Residential Development</u>	<u>Total</u>
	<u>Euro in thousands</u>		
Segment assets	1,697,871	7,996	1,705,867
Assets not allocated to the segment			121
Total assets			1,705,988
Segment liabilities	630,385		630,385
Liabilities not allocated to the segment			111,169
Total Liabilities			741,554

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER, 2019

NOTE 23: OPERATING SEGMENTS (Cont.):

B. Analysis of income and results by operating segments (Cont.):

Year ended December 31, 2018:

	Investment Properties	Residential Development	Total
	Euro in thousands		
Income	67,376	9,905	77,281
Segment profit(*)	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
	Investment Properties	Residential Development	Total
	Euro in thousands		
Segment assets	1,553,397	12,475	1,565,872
Assets not allocated to the segment	-		391
Total assets			1,566,263
Segment liabilities	641,472	-	641,472
Liabilities not allocated to the segment			83,503
Total Liabilities			724,975

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER, 2019

NOTE 24: SIGNIFICANT EVENTS AFTER THE REPORTING PERIOD

- A.** On 17 February 2020, The Company announced a proposed tender offer and cancellation of the admission of its Ordinary Shares to trading on AIM, subject to approval by Shareholders. The Tender Offer provides Shareholders with an opportunity to partially realise their investment in the Company by accepting the Tender Offer pursuant to which the Company will, conditionally, offer to purchase, on a pro rata basis, up to 148,275,862 Ordinary Shares (representing 33.3% of the Company's issued share capital) at the Tender Offer Price of €1.45 per Ordinary Share. As of 5 March 2020 following the Tender Offer and the cancellation of the repurchased shares, the Company's share capital in issue is reduced from 445,235,204 Ordinary Shares to 321,722,372 Ordinary Shares (the "Reduced ISC") and the Company does not hold any Ordinary Shares in treasury.

On 17 March 2020 the trading in the Company's ordinary shares on AIM was cancelled.

B. Implications of the spread of the Corona virus:

Lately, Germany and the world are facing an event with macro-economic implications as a result of the COVID-19 spreading in many countries around the world. This virus was announced as a global pandemic by the world health organization. As a result, many countries including Germany are taking significant measures trying to prevent the spread of the virus, such as the ministry of health's instructions to prohibit the entrance of foreigners to Germany, limitations on the transport of passengers and goods, closing the borders between countries, mandatory Isolation for the country's residents, limitations on gatherings in a way that materially adversely affects the economic activity in Germany and more.

The outbreak of the COVID-19 pandemic and the uncertainty as to the spread rate and the different instructions in different countries in handling the virus, have resulted in an economic slowdown and possibly a global financial crisis, and these are reflected in, among other things, sharp declines in world stock exchange rates. Continued outbreak of the epidemic and the steps taken to stop it could have a negative impact on the real estate industry and the operations of the company and its subsidiaries due to a possible decrease in future demand for spaces. This could also lead to an impairment of the economic strength and cash flow of the tenants, and their ability to meet their lease obligations. The company monitors the collection of rent from its tenants and as at the date of approval of these financial statements, has not observed significant collection loss.

The company believes that given the nature of its properties and their geographical spread, the stable cash flow that the properties generate from a diverse mix of tenants, including commercial companies that provide essential services to the wide population even in times of crisis, as well as tenants with an international investment rating, all together with the company's high level of liquidity, long-term unsecured financial liabilities and available sources of funding during this time, the company has adequate financial strength to enable it to deal with the crisis both the short and medium term, where the threat of the economic slowdown is expected.

Given the characteristics of the situation and its ongoing and evolving nature there may be future developments of COVID-19 pandemic that may affect the global and local economy. The company is monitoring closely the developments.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER, 2019

NOTE 25: THE COMPANY'S HOLDINGS AS OF 31 DECEMBER 2019

	Principal activity	Country of incorporation	Direct and indirect holdings %
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%
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%

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER, 2019

NOTE 25: THE COMPANY'S HOLDINGS AS OF 31 DECEMBER 2019 (Cont.)

	Principal activity	Country of incorporation	Direct and indirect holdings %
Summit Real Estate Delta GmbH	Real Estate company	Germany	99.73%
Summit Real Estate Gamma GmbH	Real Estate company	Germany	99.73%
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%
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	77.43%
Frankfurt a. M. Merton Passagen Objekt GmbH	Real Estate company	Germany	72.78%
German Investment Management Holding GmbH	Intermediate holding company	Germany	77.43%
Hamm Unionstraße Objekt GmbH	Real Estate company	Germany	72.78%
Teltow Towers Rheinstraße 15 GmbH	Real Estate company	Germany	73.48%
Teltow Towers II UG	Real Estate company	Germany	77.43%
GxP Asset Management GmbH	Intermediate holding company	Germany	77.43%
German Asset Management I. Beteiligungsgesellschaft mbH	Intermediate holding company	Germany	77.43%
German Asset Management II Beteiligungsgesellschaft mbH	Intermediate holding company	Germany	77.43%
German Asset Management III Beteiligungsgesellschaft mbH	Shelf company	Germany	77.43%
German Asset Management IV. Beteiligungsgesellschaft mbH	Shelf company	Germany	77.43%

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER, 2019

NOTE 25: THE COMPANY'S HOLDINGS AS OF 31 DECEMBER 2019 (Cont.)

	Principal activity	Country of incorporation	Direct and indirect holdings %
GxP Hannover II GmbH	Real Estate company	Germany	69.61%
German Asset Management II.GmbH	Intermediate holding company	Germany	77.43%
German Asset Management V. Beteiligung UG	Shelf company	Germany	77.43%
German Asset Management VI. Beteiligung UG	Intermediate holding company	Germany	77.43%
German Asset Management VII. Beteiligung UG	Shelf company	Germany	77.43%
THOR- Portfolio Beteiligungs GmbH	Intermediate holding company	Germany	77.43%
Thor Object I S.a.r.l	Real Estate company	Luxemburg	73.48%
Thor Object II S.a.r.l	Real Estate company	Luxemburg	73.48%
Thor Object III S.a.r.l	Real Estate company	Luxemburg	73.48%
II. GAM Vorratsgesellschaft UG	Shelf company	Germany	77.43%
GIMH Komplementär UG	Shelf company	Germany	77.43%
Retail Portfolio Teilestraße Objekt UG	Shelf company	Germany	46.46%
Retail Portfolio Wittenauer Straße Objekt UG	Shelf company	Germany	46.46%
Retail Portfolio Bremerhaven Objekt UG	Shelf company	Germany	46.46%
GIMH- Capital GmbH	Intermediate holding company	Germany	73.48%
GAM- Capital GmbH	Intermediate holding company	Germany	73.48%
1. GAM Beteiligungs UG	Intermediate holding company	Germany	73.48%
GxP 2. Vorratsgesellschaft UG	Real Estate company	Germany	73.48%
GxP 3. Vorratsgesellschaft UG	Shelf company	Germany	73.48%
GxP 4. Vorratsgesellschaft UG	Real Estate company	Germany	73.48%
GxP 5. Vorratsgesellschaft UG	Shelf company	Germany	73.48%
GxP 6. Vorratsgesellschaft UG	Shelf company	Germany	73.48%
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 MSC three GmbH	Real Estate company	Germany	94.80%
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	89.39%
DRESTATE Objekt Berlin, Friedrichstraße GmbH & Co. KG	Real Estate company	Germany	89.39%
DRESTATE Objekt Habmurg, Osterfeldstraße GmbH & Co.KG	Real Estate company	Germany	84.85%
GET Grundstücksgesellschaft mbH	Intermediate holding company	Germany	84.56%
DRESTATE Objekt Hamburg, Mendelssohnstraße GmbH & Co. KG	Real Estate company	Germany	89.39%
DRESTATE Objekt Stuttgart, Rosensteinstraße GmbH & Co. KG	Real Estate company	Germany	89.39%
DRESTATE Objekt Berlin, Hauptstraße GmbH & Co. KG	Real Estate company	Germany	89.39%
DRESTATE Objekt Düsseldorf, Bonner Straße GmbH & Co. KG	Real Estate company	Germany	89.39%
DRESTATE Objekt Ludwigshafen, Carl-Bosch-Straße GmbH & Co. KG	Real Estate company	Germany	89.39%
DRESTATE Objekt Böblingen, Otto-Lilienthal-Straße GmbH & Co. KG	Real Estate company	Germany	89.39%

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER, 2019

NOTE 25: THE COMPANY'S HOLDINGS AS OF 31 DECEMBER 2019 (Cont.)

	<u>Principal activity</u>	<u>Country of incorporation</u>	<u>Direct and indirect holdings %</u>
GbR Heidelberg, Mannheimer StraBe	Real Estate company	Germany	78.22%
DRESTATE Objekte Erste GmbH & Co. KG	Real Estate company	Germany	89.39%
DRESTATE Objekte Saarbrücken, Kaiserstraße GmbH & Co. KG	Real Estate company	Germany	89.39%
DRESTATE Objekte Saarbrücken, Hafenstraße GmbH & Co. KG	Real Estate company	Germany	89.39%
DRESTATE Objekte Berlin – Teltow, Potsdamer Straße GmbH & Co. KG	Real Estate company	Germany	89.39%
DRESTATE Objekte Norderstedt, Kohfurther Straße GmbH & Co. KG	Real Estate company	Germany	89.39%
DRESTATE Objekte Hamburg Vierundzwanzigste GmbH & Co. KG	Real Estate company	Germany	89.39%
DRESTATE Objekte Zweite GmbH & Co. KG	Real Estate company	Germany	89.39%
DRESTATE Objekt München, Maria-Probst-Straße GmbH & Co. KG	Real Estate company	Germany	89.39%
Achte TAXXUS Real Estate GmbH	Intermediate holding company	Germany	89.39%
DRESTATE Objekt Seesen, Rudolf-Diesel-Straße GmbH & Co. KG	Real Estate company	Germany	89.39%
DRESTATE Carreé Seestraße GmbH & Co. KG	Real Estate company	Germany	89.39%
K-Witt Kaufzentrum Wittenau GmbH & Co. KG	Real Estate company	Germany	89.39%
DRESTATE Finance GmbH	Inter group financing company	Germany	89.39%
DRESTATE Services GmbH	Service company	Germany	89.39%
Objekt Verwaltungs GmbH Deutsche Real Estate	Intermediate holding company	Germany	44.70%
DRESTATE Objekte Dritte GmbH & Co. KG	Real Estate company	Germany	89.39%
DRESTATE Objekt Hamburg Pinkertweg GmbH	Real Estate company	Germany	89.39%
Beteiligungsgesellschaft Pinkertweg GmbH & Co. KG	Intermediate holding company	Germany	89.39%
Verwaltungsgesellschaft Objekte DRESTATE mbH	Intermediate holding company	Germany	44.70%
Grit 68. Vermögensverwaltungs GmbH	Intermediate holding company	Germany	89.39%
Objekt Verwaltungsgesellschaft 2013 Drestate mbH	Intermediate holding company	Germany	44.70%
Objekt Verwaltungsgesellschaft 2015 Drestate mbH	Intermediate holding company	Germany	44.70%
Deutsche Shopping GmbH & Co. KG	Intermediate holding company	Germany	89.39%
K-Witt Kaufzentrum Wittenau II GmbH & Co. KG	Real Estate company	Germany	89.39%
DRESTATE Objekt Gießen-Linden, Robert-Bosch-Straße GmbH & Co. KG	Real Estate company	Germany	89.39%
Verwaltung K-Witt Kaufzentrum Wittenau II GmbH	Intermediate holding company	Germany	89.39%
DRESTATE Wohnen GmbH I.L.	Residual Company	Germany	89.39%
BAKOLA Miteigentumsfonds I Objekt Duisburg - Averdunk	Financial Participation	Germany	62.64%