CONSOLIDATED ANNUAL REPORT
OF GLOBE TRADE CENTRE S.A. CAPITAL GROUP
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017

Place and date of publication: Warsaw, 21 March 2018

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Ladies and Gentlemen,

2017 was a record year for GTC. It marks another milestone in GTC's history. With opening Galeria Północna, and two office buildings as well as developing 5 office and retail projects and preparing for development another 6 projects, GTC proved that it is a major, profitable and acquisitive market player in its CEE and SEE target markets.

Attractive asset portfolio

2017 was a remarkable year. We completed our largest retail project in Warsaw, Galeria Północna, and opened it to the public in September 2017. Galeria Północna was the first retail project brought to the Warsaw market since 2007 and now constitutes our most valuable asset. Additionally, we completed the development of two office projects: Artico, class A office project in Warsaw, which was fully let upon opening, and FortyOne III, the last phase of our FortyOne Belgrade office park. We also acquired a prime office building Belgrade Business Center, which reinforced our dominance in Belgrade office market.

In line with our strategy to focus on capital cities, during the year we sold two non-core assets, Galleria Stara Zagora and Galleria Burgas, and redirected our investment in Bulgaria to Sofia, where we started the development of Advance Business Center, centrally located office complex.

We also concentrated on securing the future growth of GTC beyond the current pipeline. That result in a number of land plots acquisitions in Budapest, Bucharest, Sofia and Zagreb.

Completions and acquisitions of five properties in 2017 increased our standing portfolio by over 105,000 sq. m of office and retail space, forming a 17% of GLA growth. It generated an increase of gross asset value (GAV) to approximately €2 billion which translated into EPRA NAV growth to €1,073 million (or €2.28 per share) in 2017.

Unique self-funded development pipeline

Our unique self-funded development pipeline comprises predominantly of landmark shopping centers and Class A office buildings with significant Net Asset Value (NAV) growth potential upon completion.

During 2017, our development activity and portfolio have progressed significantly. We advanced the development and pre-letting of our major projects and completed Galeria Północna, FortyOne and Artico with a total investment of €211 million. We decided on new developments and commenced Ada Mall, a major shopping center in Belgrade with a total investment volume of €105 million, scheduled for completion in the beginning of 2019, GTC White House, an office building in Budapest, with an investment of €48 million, scheduled for completion in Q1 2018, Green Heart, a very interesting project combing refurbishment of two existing buildings and development of three new offices in Belgrade on already owned land, with a total investment of €93 million and completion scheduled in phases in 2018 and 2019. Finally, at the end of 2017 we commenced development of Advance Business Center, an office project in Sofia with a total investment of €28 million and Matrix office project in Zagreb with a total investment of €20 million – both to be completed in the first half of 2019. That gives us 128,000 sq. m of prime office and retail space under construction.

Improvement in key operating statistics

In 2017, we put a great deal of effort into our portfolio in order to keep our already impressive overall occupancy at 94%. Our office portfolio noted success with letting out a total of 97,100 sq. m. Within our retail portfolio, we let out 34,800 sq. m, including 10,300 sq. m of pre-letting in the newly developed Ada Mall. Moreover, we managed to improve the occupancy in Galeria Jurajska up to ca. 100%. This puts our retail occupancy at 94%. We will continue to put efforts into the leasing activities to keep the occupancy level in both existing buildings and buildings under construction to be able to deliver them to the market with highest possible occupancy.

Finance

Our finance activity was abundant. We repaid all our due loans and bonds of approx. €100 million. We raised corporate debt of €78 million and borrowed €180 million in construction and investment loans. The largest transaction was refinancing of Galeria Północna, where we repatriated all invested equity and more, which will now be reinvested into the new projects. This effect propels the company growth, while keeping the overall leverage at a level of ca. 42% at the end of the year. Additionally, we negotiated attractive financing for all of our development under construction.

Total finance costs decreased for the third consecutive year. Our average cost of finance at the end of the year is now 2.8% p.a. (3.2% p.a. in 2016, and 3.4% in 2015).

All these factors, in particular the acquisitions and savings in finance costs, contributed to an increase in our Funds from Operations (FFO) from €28 million in 2014 to €47 million in 2017. This reflects the significant operational progress and turnaround success that GTC achieved last year and earlier.

2018 Total return strategy

In 2018 GTC targets to continue the growth path it performed, by growing its completed asset portfolio and advancing the development projects and completing them successfully during 2018-2019. In line with our growth strategy, we target to seize selected asset acquisition opportunities in our core markets. This will continue to provide a growth return to our shareholders. Additionally, the improvement in FFO and recurring cash inflow prompt the management to recommend a dividend payment in a total amount of 22% higher than last year, following the dividend policy introduced in 2017. Through a combination of efficient asset management and successful completion of our development pipeline, GTC will aim to produce significant total returns to its shareholders.

We are confident that GTC is well-prepared for 2018 and beyond, to deliver superior value appreciation to its stakeholders.

Our stakeholders

At the summary of 2017 activity, we would like to thank sincerely our tenants and business partners, for their cooperation in 2017. We would also like to thank our shareholders for their support and confidence in our strategy. Finally, we would like to thank our employees, without them the achievements could not be realized. Their commitment and hard work have yielded 2017 results

We look forward to a successful year in 2018 and are eager to continue the implementation of our growth strategy.

Thomas Kurzmann	Erez Boniel
CEO	CFO

MANAGEMENT BOARD'S REPORT ON THE ACTIVITIES OF GLOBE TRADE CENTRE S.A. CAPITAL GROUP IN THE FINANCIAL YEAR ENDED 31 DECEMBER 2017

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Item 1. Introduction

The GTC Group is a leading real estate investor and developer focusing on Poland and four capital cities in Eastern and Southern Europe - Belgrade, Budapest, Bucharest, Zagreb and Sofia. The Group was established in 1994.

The Group's portfolio comprises: (i) completed commercial properties; (ii) commercial properties under construction; (iii) a commercial landbank intended for future development and (iv) residential project and landbank.

Since its establishment and as at 31 December 2017 the Group has: (i) developed 1.1 million sq. m of gross commercial space and over 300 thousand sq. m of residential space; (ii) sold over 500 thousand sq. m of gross commercial space in completed commercial properties and approximately 300 thousand sq. m of residential space; and (iii) acquired approximately 112 thousand sq. m of commercial space in completed commercial properties. Additionally GTC Group developed and sold over 100 thousand sq. m of commercial space and approximately 76 thousand sq. m of residential space through its associates in Czech Republic.

As of 31 December 2017, the Group`s property portfolio comprised the following properties:

- 37 completed commercial buildings, including 34 office buildings and three retail properties with a total combined commercial space of approximately 621 thousand sq. m of GLA, of which the Group's proportional interest amounts to approximately 611 thousand sq. m of GLA;
- five commercial projects under construction, including four office projects and one retail project with total GLA of approximately 128 thousand sq. m, of which the Group's proportional interest amounts to 128 thousand sq. m of GLA;
- commercial landbank designated for future development;
- one completed residential project; and
- residential landbank.

As of 31 December 2017, the book value of the Group's portfolio amounts to €1,957,630 with: (i) the Group's completed commercial properties account for 84% thereof; (ii) commercial properties under construction – 8%; (iii) a commercial landbank intended for future development – 7%; (iv) residential projects and landbank account for 1%. Based on the Group's assessment approximately 97% of the portfolio is core and remaining 3% is non-core assets, including non-core landplots and residential projects.

Additionally, the Group manages third party assets in Warsaw and Katowice.

The Company's shares are listed on the WSE and inward listed on the Johannesburg Stock Exchange. The Company's shares are included in WIG 40 and the Dow Jones STOXX Eastern Europe 300.

The Group's headquarters are located in Warsaw, at 17 Stycznia 45A.

In the Management Board's report references to the Company or GTC are to Globe Trade Centre S.A. and all references to the Group or the GTC Group are references to Globe Trade Centre S.A. and its consolidated subsidiaries. Expressions such as: "Shares" relate to the shares in Globe Trade Centre S.A., which were introduced to public trading on the Warsaw Stock Exchange in May 2004 and later and are marked under the PLGTC0000037 code and inward listed on Johannesburg Stock Exchange in August 2016 and are marked under the ISIN PLGTC0000037 code; "Bonds" refers to the bonds issued by Globe Trade Centre S.A. and introduced to alternative trading market and marked with the ISIN codes PLGTC0000144, PLGTC0000177, PLGTC0000219 PLGTC0000227, PLGTC0000235, PLGTC0000243 and PLGTC0000268; „the Report" refers to the consolidated annual report prepared pursuant to art. 92 of the Decree of the Finance Minister of 19 February 2009 on current and periodical information published by issuers of securities and conditions of qualifying as equivalent the information required by the provisions of law of a country not being a member state; "CEE" refers to the group of countries that are within the region of Central and Eastern Europe (Hungary, Poland); "SEE" refers to the group of countries that are within the region of South-eastern Europe (Bulgaria, Croatia, Romania and Serbia); "net rentable area", "NRA", or "net leasable area", "NLA" refer to the metric of the area of a given property as indicated by the real property appraisal experts for the purposes of the preparation of the relevant real property valuations. With respect to commercial properties, net leasable (rentable) area is all the leasable area of a property exclusive of non-leasable space, such as hallways, building foyers, and areas devoted to heating and air conditioning installations, elevators and other utility areas. The specific methods of calculation of NRA may vary among particular properties, which is due to different methodologies and standards applicable in the various geographic markets on which the Group operates; gross rentable area", or "gross leasable area", "GLA" refer to the metric of the all the leasable area of a property multiplied by add-on-factor; "Commercial properties" refer to properties with respect to which GTC Group derives revenue from rent and includes both office and retail properties; FFO", "FFO I" is profit before tax less tax paid, after adjusting for non-cash transactions (such as fair value or real estate re-measurement, share base payment provision and unpaid financial expenses) and one off items (such as FX differences and residential activity); "EPRA NAV" is total equity less non-controlling interest, less: deferred tax liability related to real estate assets and derivatives at fair value; "EBITDA" is earning before fair value adjustments, interest, tax, depreciation and amortization; "EUR", "€" or "euro" refers to the single currency of the participating Member States in the Third Stage of European Economic and Monetary Union of the Treaty Establishing the European Community, as amended from time to time; "PLN" or "zloty" refers to the lawful currency of Poland; "JSE" refers to the Johannesburg Stock Exchange.

Presentation of financial information

Unless indicated otherwise, the financial information presented in this Report was prepared pursuant to International Financial Reporting Standards ("IFRS") as approved for use in the European Union.

All the financial data in this Report is presented in euro and expressed in thousands unless indicated otherwise.

Certain financial information in this Report was adjusted by rounding. As a result, certain numerical figures show as totals in this Report may not be exact arithmetic aggregations of the figures that precede them.

Presentation of property information

Information on properties is presented pro rata to the Group's consolidation method in each of the properties. The valuation of the properties is based on the value that the Group consolidates in it consolidated financial statements. The occupancy rate given for each of the markets is as of 31 December 2017.

Industry and market data

In this Report the Group sets out information relating to its business and the markets in which it operates and in which its competitors operate. The information regarding the markets, their potential, macroeconomic situation, occupancy rates, rental rates and other industry data relating to the markets in which the Group operates are based on data and reports compiled by various third-party entities. The information included in that section is not expressed in thousand and is fully based on JLL and Colliers research reports.

The Group believes that industry publications, surveys and forecasts that it uses to describe the markets on which the Group operates are reliable, but it has not independently verified them and cannot guarantee their accuracy or completeness.

Moreover, in numerous cases the Group has made statements in this Report regarding the industry in which it operates based on its own experience and its examination of market conditions. The Group cannot guarantee that any of these assumptions properly reflect the Group's understanding of the markets on which it operates. Its internal surveys have not been verified by any independent sources.

Forward-looking statements

This Report contains forward-looking statements relating to future expectations regarding the Group's business, financial condition and results of operations. You can find these statements by looking for words such as "may", "will", "expect", "anticipate", "believe", "estimate" and similar words used in this Report. By their nature, forward-looking statements are subject to numerous assumptions, risks and uncertainties. Accordingly, actual results may differ materially from those expressed or implied by forward-looking statements. The Group cautions you not to place undue reliance on such statements, which speak only as of the date of this Report.

The cautionary statements set out above should be considered in connection with any subsequent written or oral forward-looking statements that the Group or persons acting on its behalf may issue. The Group does not undertake any obligation to review or confirm analysts' expectations or estimates or to release publicly any revisions to any forward-looking statements to reflect events or circumstances after the date of this Report.

The Group discloses important risk factors that could cause its actual results to differ materially from its expectations under Item 3. "Key risk factors", Item 5. "Operating and financial review", and elsewhere in this Report. These cautionary statements qualify all forward-looking statements attributable to us or persons acting on behalf of the Group. When the Group indicates that an event, condition or circumstance could or would have an adverse effect on the Group, it means to include effects upon its business, financial situation and results of operations.

Item 2. Selected financial data

The following tables present the Group's selected historical financial data for the financial year ended 31 December 2017 and 2016. The historical financial data should be read in conjunction with Item 5. "Operating and Financial Review" and the consolidated financial statements for the financial year ended 31 December 2017 (including the notes thereto). The Group has derived the financial data presented in accordance with IFRS from the audited consolidated financial statements for the financial year ended 31 December 2017.

Selected financial data presented in PLN is derived from the consolidated financial statements for the 12-month period ended 31 December 2017 presented in accordance with IFRS and prepared in the Polish language and in Polish zloty as a presentation currency.

The reader is advised not to view such conversions as a representation that such zloty amounts actually represent such euro amounts, or could be or could have been converted into euro at the rates indicated or at any other rate.

	For the 12-month period ended 31 December			
	2017		2016	
(in thousands)	€	PLN	€	PLN
Consolidated Income Statement				
Revenues from operations	128,737	548,111	120,301	524,814
Cost of operations	(36,596)	(155,811)	(32,955)	143,766
Gross margin from operations	92,141	392,300	87,346	381,048
Selling expenses	(2,111)	(8,988)	(3,236)	14,117
Administrative expenses	(15,242)	(64,894)	(12,234)	53,371
Profit/(loss) from revaluation/impairment of assets, net	148,562	629,767	84,551	371,373
Share of profit/(loss) in associates	184	796	(4,474)	19,518
Financial income/(expense), net	(28,614)	(121,827)	(28,176)	(122,918)
Net profit / (loss)	156,598	664,459	159,575	699,369
Basic and diluted earnings per share (not in thousands)	0.34	1.42	0.34	1.51
Weighted average number of issued ordinary shares (not in thousands)	465,467,259	465,467,259	460,216,478	460,216,478
Consolidated Cash Flow Statement				
Net cash from operating activities	80,678	338,687	73,281	319,688
Net cash used in investing activities	(178,304)	(756,014)	(231,790)	(1,011,183)
Net cash from/(used in) financing activities	95,219	407,012	140,806	614,266
Cash and cash equivalents at the end of the period	148,746	620,405	149,812	662,768
Consolidated statement of financial position				
Investment property	1,797,583	7,497,539	1,501,770	6,643,830
Investment property landbank	139,258	580,831	102,905	455,252
Residential landbank and inventory	16,453	68,624	19,116	84,570
Assets held for sale	4,336	18,085	-	-
Cash and cash equivalents	148,746	620,405	149,812	662,768
Others	76,233	317,961	65,887	291,484
Total assets	2,182,609	9,103,445	1,839,490	8,137,904
Non-current liabilities	1,052,216	4,388,688	852,865	3,773,075
Current liabilities	189,131	788,847	196,302	868,439
Total Equity	941,262	3,925,910	790,323	3,496,390
Share capital	10,651	47,031	10,410	46,022

Item 3. Key risk factors

Risk Factors Relating to the Group's Business

The Group's business could be affected if the general economic conditions in the countries in which the Group operates continue or worsen

A deterioration of the general economic conditions and the real estate market in the countries where the Group operates may adversely affect the willingness and ability of customers to secure financing and purchase or lease property. If such demand falls, the Group may have to sell or let its projects at a loss or may not be able to sell or let its projects at all. A potential downturn in the general economic conditions and the real estate market in Poland or other countries in which the Group operates may also lead to a drop in the market value of the Group's properties. The crisis on the financial markets may also adversely affect the Group's business in other ways, for example if tenants of the Group or the financial institutions that provide the Group with financing go bankrupt.

Any of these factors may have a material adverse effect on the Group's business, financial condition and results of operations.

The Group may fail to implement its strategy

The Group is in the process of implementing its growth strategy pursuant to which it plans to: (i) expand its portfolio by acquiring and improving yielding properties in Poland and in capital cities in counties where the Group operates, supplemented by selected, most attractive development projects in the Group's Property Portfolio; (ii) improve the efficiency of its asset management activities and maximise operating performance and efficiency; and (iii) sell its non-core assets which may allow the Group to reduce its financial leverage or obtain funds to be used for new investments.

As a result, certain properties and qualities of the portfolio may change in terms of geographic split, the ratio of the value of completed properties and the value of properties under construction, as well as the portfolio's split by asset classes (i.e. retail, office, residential and other properties). As a result, various metrics of the Group's business and recurring cash flows derived from rental income may change. Moreover, no assurance can be given that the Group's property portfolio or future investment strategies effected pursuant to the Group's strategy will enhance the value of its property portfolio and increase the Group's profitability. In particular, the success of the Group's business strategy relies on assumptions and contingencies that may prove to be partially or wholly incorrect and/or inaccurate. This includes assumptions with respect to the level of profitability of the acquisition targets to be completed in the future and investment criteria which have been developed by the Group for the purpose of achieving the expected level of returns on the acquired properties.

The Group may fail to achieve its major goals due to internal and external factors of a regulatory, legal, financial, social or operational nature, some of which may be beyond the Group's control. In particular, volatile market conditions, a lack of capital resources needed for expansion and the changing price of available properties for sale in the relevant markets may hinder or make it impossible for the Group to implement the core elements of its strategy. Moreover, expanding its presence in the asset management sector may be hindered or even impossible due to increasing competition from other real estate managers and investors in the real estate market.

Should the Group experience these or other challenges, the Group may be unable to implement its strategy fully or at all; it may decide to change, suspend or withdraw from its strategy or development program, and it may be unable to achieve, or it could encounter delays in achieving, the planned synergies and desired benefits from its strategy and development program. This could have a material adverse effect on the Group's business, financial condition, results of operations.

The valuation of the Group's properties is inherently uncertain, may be inaccurate and is subject to fluctuation

The Group presents the vast majority of its real estate properties at a fair value, which has been estimated by external real estate valuation experts.

The valuation of property is inherently subjective and uncertain since it is done on the basis of assumptions which may differ from actual future developments. For example, the valuation reports were prepared on the basis of certain forecasts and assumptions regarding the real estate market in geographic markets in which the Group operates.

The fair value of investment properties and the undeveloped landbank is established semi-annually (i.e. as of 30 June and 31 December of each year) by independent certified appraisers based on discounted projected cash flows from the investment properties using discount rates applicable for the relevant local real estate market or, in case of some of the real properties, using the sales comparison approach. In most instances the independent certified appraisers do not, however, prepare valuations for 31 March and 30 September of each year. Such valuations are reviewed internally and, if necessary, verified by the Company's management.

There can be no assurance that the valuations of the Group's properties (undeveloped, in progress and completed) will reflect the actual sale prices or that the estimated yield and annual rental revenue of any property will be attained, or that such valuations will not be subject to be challenged by, among others, the regulatory authorities. Forecasts may prove inaccurate as a result of the limited amount and quality of publicly available data and research regarding Poland and other markets in which the Group operates compared to mature markets. Additional factors that impact the valuation and, specifically, the planning of projects are the construction costs as estimated by the Group and established on the basis of current prices and future price forecasts, whereas the actual costs may be different. Moreover, some of the valuations are based on certain assumptions regarding future zoning decisions. Such assumptions may turn out not to be fulfilled which may result in the Group not being able to develop certain property in line with the plan. This may adversely impact the valuation of such properties in the future.

If the forecasts and assumptions on which the valuations of the projects in the Group's portfolio are based prove to be inaccurate, the actual value of the projects in the Group's portfolio may differ materially from that stated in the valuation reports. Inaccurate valuations of the Group's properties and fluctuations in valuations may have a material adverse effect on the Group's business, financial condition and results of operations.

In addition, a decrease in the value of the real estate properties of the Group may also negatively affect the Group's covenants to maintain certain levels of loan-to-value ratios established in connection with the Group's loans incurred to finance projects and the ability of the Group to raise and service its debt funding. Each such event may have a material adverse effect on the Group's business, financial condition, results of operations.

The Group's consolidated balance sheet and income statement may be significantly affected by fluctuations in the fair market value of its properties as a result of revaluations

The Group's income generating properties and properties under development are independently revalued on at least semi-annual basis in accordance with its accounting policy. Consequently, in accordance with IAS 40 "Investment Property" as adopted by the EU, any increase or decrease in the value of its properties accounted for in accordance with fair value models recorded as a revaluation gain or loss in the Company's consolidated income statement for the period during which the revaluation occurs. Moreover, projects under construction which cannot be reliably valued at fair value are valued at historical cost decreased by impairment, if any. Such properties are tested for impairment on, at least, a semi-annual basis. If the criteria for impairment are satisfied, a loss is recognized in the Group's consolidated income statement.

As a result, the Group can have significant non-cash revenue gains or losses from period to period depending on the changes in the fair value of its investment properties, whether or not such properties are sold. For instance, the Group may recognize revaluation losses and impairment of assets and residential projects as well as profits in other years.

If market conditions and the prices of comparable commercial real properties continue to be volatile, the Group may continue to experience significant revaluation gains or losses from the Group's existing properties in the future. If a substantial decrease in the fair market value of its properties occurs, over the longer term, this may have a material adverse effect on the Group's business, financial condition, results of operations.

The Group's business is dependent on its ability to actively manage its assets

A core part of the Group's operations is the active management of its assets, which includes the management of vacancy rates and rent levels and the terms of executed lease agreements in the case of all commercial properties, as well as achieving the desired tenant mix in the case of retail properties. This is particularly relevant with respect to the Group's large scale commercial properties. In addition to legal constraints, the Group's ability to reduce vacancies, renegotiate rents and create a desired tenant mix is partly subject to market-related factors. Some of these factors, such as the general economic environment, consumer confidence, inflation and interest rates, and others are beyond the Group's control. During periods of recession or downturns in the economy it is more challenging for developers to attract new tenants and to retain existing ones, and the competition between developers for each tenant is much stronger. If the Group is unable to create or capture demand for its properties by, for example, improving tenant services or motivating its external sales agents, it may not be able to reduce vacancy rates or renegotiate rents as desired.

A prolonged period of higher vacancy rates could lower the rents tenants generally pay and make it more difficult to increase the average rent that the Group expects to charge. Higher vacancy rates would also increase the Group's overall operating costs, as it would have to cover expenses generated by empty properties or units. Any such decrease in rental revenue or increase in operating costs could have a material adverse effect on the Group's business, financial condition, results of operations.

The Group's growth and profitability will depend on the Group's ability to identify and acquire attractive income-generating properties, efficiently manage its portfolio and develop selected projects

In accordance with its strategy, the Group intends to expand its business through: (i) the acquisition of yielding properties; (ii) asset management focused on unlocking value from the Group's portfolio; and (iii) the development of selected projects. Accordingly, the growth and profitability of the Group and the success of its proposed business strategy depend, to a significant extent, on its continued ability to locate and acquire yielding properties at attractive prices and on favorable terms and conditions.

The ability to identify and secure accretive value-added acquisition opportunities involves uncertainties and risks, including the risk that the acquisition is not an income-generating one after the Group has carried out business, technical, environmental, accounting and legal examinations of the property or project. In addition, the Group also faces the risk that competitors may anticipate certain investment opportunities and compete for their acquisition. Additionally, any potential acquisition of properties may give rise to pre-acquisition costs which have to be paid by the Group even if the purchase of a property is not concluded. There can be no assurance that the Group will be able to: (i) identify and secure investments that satisfy its rate of return objective and realize their values; and (ii) acquire properties suitable for management in the future at attractive prices or on favorable terms and conditions.

As a part of its strategy, the Group intends to focus on maximizing the operating performance and efficiency of the active management of its income-generating commercial property portfolio. In pursuing this objective, the Group may expend considerable resources (including funds and management time) on managing properties that do not generate the expected returns and maintain certain ratios at the required level due to, for example, a decrease in demand for rental units or in rental levels which are not possible to anticipate.

The failure of the Group to identify and acquire suitable properties, effectively manage its properties portfolio and develop its projects could have a material adverse effect on the Company's business, financial condition, results of operations or prospects.

The Group might not receive adequate information on risks relating to, or might make errors in judgment regarding, future acquisitions of real estate

The acquisition of real estate requires a precise analysis of the factors that create value, in particular the levels of future rental values and the potential for the improvement of the NOI. Such an analysis is subject to a wide variety of factors as well as subjective assessments and is based on various assumptions. It is possible that the Group or its service providers will misjudge individual aspects of a given project when making acquisition decisions or that assessments on which the Group bases its decision are inaccurate or based on assumptions that turn out to be incorrect. Such judgment errors may lead to an inaccurate analysis and valuation of the properties by the Group in connection with investment decisions that may only become apparent at a later stage and force us to revise the Group's valuation amounts downwards. The Group can also not guarantee that the service provider it chooses to carry out its due diligence when purchasing property will identify all the risks related to the property in question. In addition, the Group cannot guarantee that it will be able to have recourse to the seller of the property for not disclosing such risks. If the Group does not find out about these risks, this could lead the Group to economic and financial disadvantages. The Group cannot guarantee that it will be able to pursue remedies against the respective seller for the non-disclosure of such risks. The occurrence of one or several of such risks could have a material adverse effect on the Group's business, financial condition, results of operations.

The Group cannot guarantee that it will continue to generate rental income at assumed levels

Rental levels of the Group's properties are generally affected by overall conditions in the economy as well as the conditions of the portfolio itself (including future acquisitions of properties and the performance of the existing portfolio), the development of the selected existing projects, their infrastructure condition, the specific properties, and the vacancy rates. All these elements are subject to various factors, some of which are outside the Group's control. In particular, due to increased competition and pressure on rents and the worsening of the financial condition of tenants, the Group may not be able to renew the expiring leases of its current properties on favorable terms and conditions (if at all) or find and retain tenants willing to enter into leases on terms that are at least as favorable as those on which the Group has rented its properties thus far. Moreover, the Group's portfolio has included and will continue to include numerous properties with non-fixed rents tied to the turnover of the tenants. Accordingly, if the turnover of such tenants declines, the rent payable by them will also decrease. In addition, the Group has no impact on the operations of its tenants and may not be able to monitor on an ongoing basis the tenants' turnover in order to ensure that the level of turnover reflects the best and actual performance efforts of its tenants. Consequently, the amounts of rental income generated by the Group's office and retail properties in the past cannot be used to predict future rental income and there can be no assurance that rental income will develop positively in the future.

Additionally, the Group's rental income may also decrease as a result of asset disposals or acquisitions of properties with no or unsatisfactory income-generating capabilities. As part of its strategy, the Group is reorienting its portfolio and intends to acquire accretive and value-added properties and sell its non-core assets. In accordance with such strategy, that newly acquired properties are intended to be integrated with the existing portfolio and rented out in order to generate rental income for the Group. If these properties are not fully rented and/or the rental rates are agreed below the estimated rental values, the Group may not be able to realize its expected rates of return on the new acquisitions.

A less positive or negative development of rental income and profits could have a material adverse effect on the Group's business, financial condition, results of operations.

The termination or expiration of lease agreements or the inability to rent out existing unoccupied space could have lasting negative effects on the Group's profitability and on the value of the Group's portfolio

For the Group to be profitable over the long term, the income-generating properties it owns and intends to acquire in the future must be rented out without interruptions to the greatest extent possible. The same applies to maintaining the valuation of the properties the Group owns and thus the valuation of the overall portfolio. To the extent that leases are terminated or expire, the Group can give no assurance that the properties in question can be rented out again immediately. An increased vacancy rate would result in lower rental income from the management of the existing portfolio and in a lower valuation of the Group's properties and overall portfolio. Expected vacancies are already reflected in the valuation reports as of 31 December 2017. The fixed costs for maintaining vacant spaces and the lack of rental income generated by such spaces could have a material adverse effect on the Group's business, financial condition, results of operations.

The Group may be unable to fully recover the costs of operating the properties from the tenants

The majority of the Group's lease contracts are structured in a way that allow to pass on certain of the costs related to the leased property to the tenant, including marketing cost, electricity cost on common space, real estate taxes, building insurance, and maintenance. However, the Group is not able to pass on all such costs to the tenants, especially in a very competitive environment, where the Company has to offer the attractive conditions to be able to compete with the other office buildings or has to improve the conditions offered to its tenants to be able to attract a new tenant to its retail project. Deteriorating market conditions, increased competition and tenants' requirements may further limit the Group's ability to transfer such costs, in full or in part, to the tenants. The service charges of the properties may increase due to a number of factors, including an increase in the electricity costs or an increase in the maintenance cost. Moreover, if vacancy rates increase, the Company has to cover the portion of the service charge that is related to the vacant space. Some lease agreements provide for the maximum value combined rental rate and service charged paid by the tenant. In such cases, if the maintenance charges increase, the Group is unable to pass on such costs to the tenants. For example, in the case of Galleria Arad and Avenue Mall Osijek, due to the worsening macroeconomic conditions and strong competition, the Group was unable to pass on all the maintenance costs to the tenants in the period running from their completion to their sale, and had to lease out those commercial properties at a loss.

Any significant increases in the property costs that cannot be compensated by increasing the level of costs incurred by the tenants may have an adverse effect on the Group's business, financial condition and results of operations.

The Group may be materially affected by the loss of attractive tenants

The presence of reputable tenants, especially anchor tenants, in the Group's retail projects is important for its commercial success. Such tenants play an important part in generating customer traffic and making a building a desirable location for other tenants. It may be more difficult for the Group to attract tenants to enter into leases during periods when market rents are increasing or when general consumer activity is decreasing, or if there is competition for such tenants from competing developments. In addition, the termination of a lease agreement by any significant tenant may adversely affect the attractiveness of a project. The failure of such tenant to abide by these agreements, or its bankruptcy or economic decline, may cause delays or result in a decrease in rental income (temporary or long-term), the effect of which the Group may not be able to off-set due to difficulties in finding a suitable replacement tenant. If the Group fails to renew the leases of important tenants, or to replace such tenants in a timely manner, the Group may incur material additional costs or loss of revenues, which may, in turn, have a material adverse effect on the Group's business, financial condition and results of operations.

The Group faces competition from other owners, real estate managers and developers of commercial real estate

The Group has faced and continues to face increased competition from other owners, local and international real estate managers and developers of commercial real estate. Such competition may affect the Group's ability to attract and retain tenants and may reduce the rents that the Group is able to charge. Such competing properties may have vacancy rates that are higher than the vacancy rates of the Group's properties, which could result in their owners being willing to make space available at lower rental rates than the Group would normally be prepared to offer but which the Group may have to match. Competition in the real estate market may also lead to increased marketing and development costs.

Given that the successful growth and profitability of the Group depend on: (i) the level of its vacancy rates; (ii) the increase and maintenance of occupancy on best achievable market terms; (iii) the level of lease rent and rent collection; (iv) optimization of property maintenance costs; and (v) the acquisition of real estate at lowest available prices, the increased competition from other owners, real estate managers and developers of commercial real estate and surrounding factors could adversely affect the Group's business, financial condition and results of operations.

The Group may be subject to significant competition in seeking investments and may increase the purchase price of properties to be acquired

The Company competes with a number of real estate companies and developers for properties, developments, contractors and customers. Some of the Group's competitors may be larger or have greater financial, technical and marketing resources than the Group and therefore the Group may not be able to compete successfully for investments or developments.

In addition, new acquisitions of existing properties at yields that the Company considers attractive may become difficult to complete. Accordingly, the implementation of the Company's strategy to make suitable investments in prime locations may be delayed or, even, become impossible.

Competition in the real estate market may also lead to a significant increase in prices for real estate available for sale, which could be potential targets for the Group. Each of these risks could have a material adverse effect on the Group's business, financial condition, results of operations.

The Group cannot assure profitability of its projects

The Group currently has no projects that are not profitable, however in the past the Group had a number of projects that were not primarily due to insufficient occupancy rates and rent levels. The Group cannot exclude that other projects may also start generating losses in the future. Any such development may have a material adverse effect on the Group's business, financial condition, results of operations.

The Group may not be able to sell its properties on a timely basis

As part of its strategy, the Group intends to sell its non-core assets. The sale of a real estate project is usually a complex and lengthy process. There may be situations, however, when it would be beneficial for the Group to be able to sell one or more of its projects quickly. For example, the Group may wish to sell on short notice if it believes that market conditions are optimal or if it is approached by a party interested in purchasing a particular property on commercially attractive terms. The Group's ability to sell its property quickly may, however, be hindered by a number of factors beyond its control.

The Group's properties may constitute collateral established in favour of entities providing external financing, which may further restrict and/or delay their transferability if the lender's consent must first be obtained. Several of the Group's projects are also held through joint ventures with third parties and may, as a result, be subject to legal and/or contractual limitations on transferability, such as first refusal and co-sale rights, or a requirement to obtain joint approval for any such sale. Such limitations could adversely affect the Group's ability to complete a transaction and to generate cash as needed through the timely sale of its projects at favourable prices or to vary its portfolio in response to economic or other conditions impacting the property value. If the Group cannot sell a particular project within a reasonable time, it may not be able to generate the cash flow it may require to service ongoing operations or invest in new projects, or it may be unable to take advantage of favourable economic conditions or mitigate the impact of unfavourable economic conditions should they arise, which could have a material adverse effect on the Group's business, financial condition, results of operations.

The Group's properties could suffer damage due to undiscovered defects or external influences

The Group's properties could suffer damage due to undiscovered or underestimated defects or from external influences (e.g., earthquakes, floods, landslides or mining damage). In addition to the significant health risks and related costs, the Group could also be required to pay for the removal and disposal of hazardous substances, as well as the related maintenance and restoration work, without the ability to pass those costs onto third parties. The occurrence of any such risk could have a material adverse effect on the Group's business, financial condition, results of operations.

If a given property is currently under renovation or modernization, there can be no assurance that any space which has not been pre-leased, can be let or otherwise marketed during or following the renovation or modernization phase on the appropriate terms and conditions. Such developments could have a material adverse effect on the Group's business, financial condition, results of operations.

Failure to obtain the required zoning or construction permits, or any other approvals in a timely manner or at all may delay or prevent the development of certain of the Group's projects

The Group cannot guarantee that any permits, consents or approvals required from various government entities in connection with existing or new development projects will be obtained by the Group in a timely manner, or that they will be obtained at all, or that any current or future permits, consents or approvals will not be withdrawn. For example, as part of its operations, the Group, may occasionally purchase land that requires rezoning or a new or amended local spatial development plan or planning permission. The issuance of a required permission cannot be guaranteed, and the Group has encountered difficulties in the past in that respect.

If the Group cannot obtain the required approvals and permits in a timely manner or at all, its projects may be delayed or cancelled, which could have a material adverse effect on the Group's business, financial condition, results of operations.

The Group may be subject to increased costs or project delays or cancellations if it is unable to hire general contractors to build its projects on commercially reasonable terms, or at all, or if the general contractors it hires fail to build the Group's projects to accepted standards, in a timely manner or within budget

The Group outsources the construction of its projects to general contractors. The successful construction of the Group's projects depends on its ability to hire general contractors to build its projects to accepted standards of quality and safety on commercially reasonable terms, within the limits of an agreed timeframe or an approved budget. The Group's failure to hire general contractors on commercially reasonable terms could result in increased costs. Failure to hire general contractors at all could result in project delays or cancellations. Failure of the general contractors to meet accepted standards of quality and safety or to complete the construction within the agreed timeframe or within an approved budget may result in increased costs, project delays or claims against the Group. In addition, it may damage the Group's reputation and affect the marketability of the completed property. If the Group is unable to enter into contracting arrangements with quality general contractors or subcontractors on commercially reasonable terms, or their performance is substandard, this could have a material adverse effect on the Group's business, financial condition, results of operations.

The financial strength and liquidity of the Group's general contractors may be insufficient in the case of a severe downturn in the real estate market, which, in turn, could lead to their insolvency. Although most of the subsidiaries' agreements with general contractors provide for the indemnification of the subsidiaries against any claims raised by sub-contractors engaged by such general contractors, there can be no assurance that such indemnification provisions will be fully effective, in particular if such indemnification is challenged in court. The Group endeavors to require general contractors to secure the performance of their obligations under their respective agreements, in particular by presenting bank guarantees. However, there can be no assurance that such guarantees will cover the entire costs and damages incurred by the Group in connection with the non-performance of agreements entered into with general contractors.

The Group's reliance on general contractors and subcontractors exposes it to risks associated with the poor performance of such contractors and their subcontractors and employees and construction defects. The Group may incur losses as a result of being required to engage contractors to repair defective work or pay damages to persons who have suffered losses as a result of such defective work. Furthermore, these losses and costs may not be covered by the Group's professional liability insurance, by the contractor or by any relevant subcontractor – in particular in the case of the architects engaged by the general contractors as both the scope of their liability and their financial strength is limited in comparison to the value of the Group's projects. If the performance of the Group's general contractors or subcontractors is substandard, this could have a material adverse effect on the Group's business, financial condition, results of operations.

The Group may face claims for defective construction and risks associated with adverse publicity, which could have an adverse effect on its competitive position

The construction, lease and sale of properties are subject to a risk of claims for defective construction, corrective or other works and associated adverse publicity. There can be no assurance that such claims will not be asserted against the Group in the future, or that such corrective or other works will not be necessary. Further, any claim brought against the Group, and the surrounding negative publicity concerning the quality of the Group's properties or projects, irrespective of whether the claim is successful, could also have a material adverse effect on how its business, properties and projects are perceived by target customers, tenants or investors. This could negatively affect the Group's ability to market, lease and sell its properties and projects successfully in the future, which could have a material adverse effect on the Group's business, financial condition, results of operations.

The construction of the Group's projects may be delayed or otherwise negatively affected by factors over which the Group has limited or no control

The construction of the Group's projects may be delayed or otherwise negatively affected by, among others, the following factors over which the Group has limited or no control:

- increased material, labor or other costs, which may make completion of the project uneconomical;
- acts of nature, such as harsh climate conditions, earthquakes and floods, that may damage or delay the construction of properties;
- industrial accidents, deterioration of ground conditions (for example, the presence of underground water) and potential liability under environmental laws and other laws related to, for example, ground contamination, archaeological findings or unexploded ordnance;
- acts of terrorism, riots, strikes or social unrest;
- building code violations or as yet undetected existing contamination, soil pollution, or construction materials that are determined to be harmful to health;
- changes in applicable laws, regulations, rules or standards that take effect after the commencement by the Group of the planning or construction of a project that result in the incurrence of costs by the Group or delays in the development of a project; and
- defective building methods or materials.

The inability to complete the construction of a project on schedule, within budget or at all for any of the above or other reasons may result in increased costs or cause the project to be delayed or cancelled, which could have a material adverse effect on the Group's business, financial condition, results of operations.

The Group is subject to general development risks that may increase costs and/or delay or prevent the development of its projects

Development of certain of the Group's projects has not yet begun and these projects do not as of the date of delivery of this Report generate any revenues. The successful development of these projects is an important factor for the Group's future success, and involves a large number of highly variable factors which are complex and inherently subject to risk. Development risks to which the Group is sensitive include, among others:

- additional construction costs for a development project being incurred in excess of the amount originally agreed with the general contractor;
- liability to subcontractors related with bankruptcy of the general contractor;
- changes in existing legislation or the interpretation or application thereof (e.g. an increase of the rate of the goods and services tax, which impacts the demand for housing);
- actions of governmental and local authorities resulting in unforeseen changes in urban planning, zoning and architectural requirements;
- potential defects or restrictions in the legal title to plots of land or buildings acquired by the Group, or defects, qualifications or conditions related to approvals or other authorizations relating to plots of land held by the Group;
- the Group's potential inability to obtain financing on favourable terms or at all for individual projects or in the context of multiple projects being developed at the same time;
- potential liabilities relating to acquired land, properties or entities owning properties with respect to which the Group may have limited or no recourse;
- tenants' unwillingness to vacate a development site;
- obligations regarding the development of adjacent properties;
- inability to receive required zoning permissions for intended use;
- discrepancies between the planned area and the post-construction area of developments; and
- obligations relating to the preservation and protection of the environment and the historic and cultural heritage of Poland and other jurisdictions in which the Group conducts its operations, as well as other social obligations.

These factors, including factors over which the Group has little or no control, may increase costs, give rise to liabilities or otherwise create difficulties or obstacles to the development of the Group's projects. The inability to complete the construction of a property on schedule or at all for any of the above reasons may result in increased costs or cause the projects to be delayed or cancelled, which may have a material adverse effect on the Group's business, financial condition, results of operations.

Without sufficient local infrastructure and utilities, the construction of the Group's projects may be delayed or cancelled, or it may be unable to realize the full expected value of its completed projects

The Group's projects can only be carried out if the sites on which they are located have access to the relevant technical infrastructure required by law (e.g. internal roads, utility connections, and fire prevention equipment and procedures). In cases where such sites do not have the required infrastructure, a use permit for the project may not be issued until such infrastructure is assured. It is also possible that the relevant authorities may require the Group to develop the relevant infrastructure as a part of the works related to the project, which may have a significant impact on the costs of the construction works. The authorities may also demand that the investor develop technical infrastructure that is not required from the project's perspective, but may be expected by the authorities as a contribution by the investor to the development of the local municipality.

In addition to the necessity of having adequate infrastructure during the construction process, the viability of the Group's projects, once completed, depends on the availability and sufficiency of the local infrastructure and utilities. In some cases, utilities, communications and logistics networks have not been adequately funded or maintained in recent decades and may be non-existent, obsolete or experience failures. To be sufficient, the existing local infrastructure and utilities may need to be improved, upgraded or replaced. As a consequence of this lack of maintenance, for example, the Group may from time to time experience shortages in the availability of energy and other utilities. There can be no assurance that improvements to the infrastructure in and around the Group's projects, or the infrastructure integrated into its projects, will be completed prior to the completion of the projects or that any such improvement will be sufficient to support the Group's completed projects. This may have a material adverse effect on the Group's business, financial condition, results of operations.

The Group is reliant on partners and co-investment agreements for a portion of its developments and faces counterparty risks

A subsidiary of the Group may be a party to a shareholders agreement imposing some restrictions on it, including, inter alia, in relation to the disposal of its interest, and its income and capital distribution entitlements. In addition, as a shareholder, the Group may be jointly and severally liable for costs, taxes or liabilities with its co-investors and, in the event of the subsidiary default, and the Group company may be exposed to more than its proportionate share of the cost, tax or liability in question. This could have an adverse effect on the Group's business, financial condition and results of operations.

The Group is also exposed to the credit risk of its counterparties in such partnership or co-investment agreements and their ability to satisfy the terms of contracts Group companies have with them. This may have an adverse effect on the Group's business, financial condition, results of operations.

The Group may be subject to liability following the disposal of investments

When the Group disposes of its projects, it may be required to give certain representations, warranties and undertakings which, if breached, could result in liability to pay damages. As a consequence, the Group may become involved in disputes or litigation concerning such provisions and may be required to make payments to third parties, which may have a material adverse effect on the Group's business, financial condition, results of operations.

The Group may be exposed to certain environmental liabilities and compliance costs

The environmental laws in CEE and SEE impose existing and potential requirements to conduct remedial action on sites contaminated with hazardous or toxic substances. Such laws often impose liability without regard to whether the owner of such site knew of, or was responsible for, the presence of such contaminating substances. In such circumstances, the owner's liability is generally not limited under such laws, and the costs of any required removal, investigation or remediation can be substantial. The presence of such substances on any of the Group's properties, or the liability for the failure to remedy contamination from such substances, could adversely affect the Group's ability to sell or let such property or to borrow funds using such property as collateral. In addition, the presence of hazardous or toxic substances on a property may prevent, delay or restrict the development or redevelopment of such property, which could have a material adverse effect on the Group's business, financial condition, results of operations.

The Group may be subject to legal disputes and risks

The Group's business involves the acquisition, rental, sale and administration of properties, including under cooperation agreements that, as a matter of ordinary course of business, expose the Group to a certain amount of small-scale litigation and other legal proceedings. Legal disputes which, taken individually, are relatively immaterial, may be joined with disputes based on similar facts such that the aggregate exposure of the Group might become material to its business. Furthermore, the Group may face claims and may be held liable in connection with incidents occurring on its construction sites such as accidents, injuries or fatalities of its employees, employees of its contractors or other visitors on the sites. It is standard practice in real estate transactions for the seller to make representations and warranties in the purchase agreement concerning certain features of the property. Typically, the assurances the seller gives regarding the property in the purchase agreement do not cover all of the risks or potential problems that can arise for the Group in connection with the purchase of property by the Group. In addition, the Group may be unable, for a variety of reasons, including, in particular, the seller's insolvency, to enforce its claims under these assurances. If this were to occur, the Group may suffer a financial loss.

Moreover, if the Group's properties are subjected to legal claims by third parties and no resolution or agreement is reached, these claims can delay, for significant periods of time, planned actions of the Group. Such situations may include, for example, claims from third parties relating to plots of land where the Group has developed and completed a real estate asset which it then intends to sell, as well as claims from third parties relating to specific land plots the Group needs to acquire in order to complete a particular project (for example plots adjoining plots it owned as of the date of the delivery of this Report), which could delay the acquisition by the Group of such plots.

The occurrence of one or several of the aforementioned risks could have a material adverse effect on the Group's business, financial condition, results of operations.

When leasing or selling real estate, the Group could be faced with claims for guarantees for which it does not have adequate recourse

The Group provides different types of guarantees when it leases real estate, especially with regard to legal title and the absence of defects in quality, as well as existing contamination and the portfolio of leases. The same applies to the sale of real estate. Claims could be brought against the Group for breach of these guarantees. Defects of which the Group was not aware, but of which it should have been aware, when it concluded the transaction pose a particular risk. The Group's possible rights of recourse towards the sellers of properties could fail due to the inability of the persons in question to demonstrate that they knew or should have known about the defects, due to the expiration of the statute of limitations, due to the insolvency of the parties opposing the claim, or for other reasons. The occurrence of one or several of the aforementioned risks could have a material adverse effect on the Group's business, financial condition, results of operations.

The Group's insurance may be inadequate

The Group's insurance policies may not cover it for all losses that may be incurred by the Group in the conduct of its business, and certain types of insurance are not available on commercially reasonable terms or at all. As a result, the Group's insurance may not fully compensate it for losses associated with damage to its real estate properties. In addition, there are certain types of risks, generally of a catastrophic nature, such as floods, hurricanes, terrorism or acts of war that may be uninsurable or that are not economically insurable. Other factors may also result in insurance proceeds being insufficient to repair or replace a property if it is damaged or destroyed, such as inflation, changes in building codes and ordinances and environmental considerations. The Group may incur significant losses or damage to its properties or business for which it may not be compensated fully or at all. As a result, the Group may not have sufficient coverage against all losses that it may experience. Should an uninsured loss or a loss in excess of insured limits occur, the Group could lose capital invested in the affected developments as well as anticipated future revenues from such project. In addition, the Group could be liable to repair damage caused by uninsured risks. The Group could also remain liable for any debt or other financial obligation related to such damaged property. No assurance can be given that material losses in excess of insurance coverage limits will not occur in the future. Any uninsured losses or losses in excess of insured limits could have a material adverse effect on the Group's business, financial condition, results of operations.

The Group is dependent on a limited number of key members of its management

The Group's success depends on the activities and expertise of the members of its management. If the Group is unable to retain the key members of its management, this could result in a significant loss of expertise and could have a material adverse effect on the Group's business, financial condition, results of operations.

Shortages of qualified employees and other skilled professionals could delay the completion of the projects of the Group or increase its costs

The Group relies on a skilled team of professionals, including its key management and project managers, mid-level managers, accountants and other financial professionals, in the development of its projects. If the Group is unable to hire the necessary employees, staffing shortages may adversely affect its ability to adequately manage the completion of its projects and efficiently manage its assets or force it to pay increased salaries to attract skilled professionals or the necessary employees. Furthermore, the future success of the Group depends on its ability to hire senior personnel such as managers with extensive experience in the identification, acquisition, financing, construction, marketing and management of development projects and investment properties. The failure by the Group to recruit and retain appropriate personnel may have a material adverse effect on the Group's business, financial condition, results of operations.

Risk Factors Relating to the Group's financial condition

The Group's substantial leverage and debt service obligations are significant and could increase, adversely affecting its business, financial condition or results of operations

As of the date of the delivery of this Report the Group is substantially leveraged and have significant debt service obligations. In addition, the Group may incur additional indebtedness in the future. The incurrence of additional indebtedness would increase the leverage-related risks described in this Report and may have a material adverse effect on the Group's business, financial condition, results of operations. The Group's leverage could have material consequences for investors, including, but not limited to, could lead to the following:

- increasing vulnerability to and simultaneously reducing flexibility to respond to downturns in the Group's business or general adverse economic and industry conditions, including adverse economic conditions in the jurisdictions in which the Group operates;
- limiting the Group's ability to obtain additional financing to fund future operations, capital expenditures, business opportunities, acquisitions and other general corporate purposes and increasing the cost of any future borrowings;
- forcing the Group to dispose of its properties in order to enable it to meet its financing obligations, including compliance with certain covenants under loan agreements;
- requiring the dedication of a substantial portion of the Group's cash flows from operations to the payment of the principal of and interest on its indebtedness, meaning that these cash flows will not be available to fund its operations, capital expenditures, acquisitions or other corporate purposes;
- limiting the Group's flexibility in planning for, or reacting to, changes in its business, the competitive environment and the real estate market; and
- placing the Group at a competitive disadvantage compared to its competitors that are not as highly leveraged.

Any of these or other consequences or events could have a material adverse effect on the Group's ability to satisfy its obligations.

The Group may incur substantial losses if it fails to meet the obligations and requirements of its debt financing and, furthermore, the restrictions imposed by its debt financing may prevent it from selling its projects

In order to secure its loans, the Group has in the past and/or may in the future mortgage its assets, pledge participation interests in its subsidiaries, enter into guarantees and covenant to its creditors that it would not establish any further mortgages or pledges on its present and/or future assets without their consent (negative pledges provisions). In addition, the Group's loans contain restrictions on its ability to dispose of certain key assets, which in turn may be required in order to satisfy certain financial covenants. The Group could fail to make principal and/or interest payments due under the Group's loans or breach any of the covenants included in the loan agreements to which the Group has entered. In some cases, the Group may breach these covenants due to circumstances which may be beyond the control of the Group. These may include requirements to meet certain loan-to-value ratio, debt service coverage and working capital requirements. A breach of such covenants by the Group could result in the forfeiture of its mortgaged assets, the acceleration of its payment obligations, the acceleration of payment guarantees, trigger cross-default clauses or make future borrowing difficult or impossible. In these circumstances, the Group could also be forced in the long term to sell some of its assets to meet its loan obligations or the completion of its affected projects could be delayed or curtailed.

Any of the events described above could have a material adverse effect on the Group's business, financial condition, results of operations.

The Group might be unable to renew or refinance loans as they mature, or might be able to renew or refinance such loans only on less favourable terms

All of the Group's real estate developments have been financed through loans, which have been provided for a limited term. The Group might not be able to renew or refinance the remaining obligations in part or at all or might have to accept less favourable terms in respect of such refinancing. If the Group is unable to renew a loan or secure refinancing, the Group could be forced to sell one or more of its office properties in order to procure the necessary liquidity. Additionally, if the Group is not able to renew certain loans, those properties which are financed through loans will become low leveraged and, as a consequence, will not be able to generate the expected returns on equity. Any combination of the above would have material adverse effects on the Group's business, cash flows, financial condition and results of operations.

The Group is exposed to changes in foreign currency exchange rates

The Group's financial statements are expressed in Euro and the Company's functional currency is the Euro. Moreover, the majority of the Group's revenues, specifically rent revenues, are expressed in Euro. However, certain of the Group's costs, such as certain construction costs, labour costs and remuneration for certain general contractors, are incurred in the currencies of the respective geographical markets, including Polish złoty, Bulgarian leva, Czech korunas, Croatian kunas, Hungarian forints, Romanian lei or Serbian dinars.

In making the assumptions regarding the level of equity required to implement its strategic objectives, the Group used Euro as the reference currency. Additionally the majority of the investments that the Group plans to make as part of its business strategy will be expressed in Euro. Therefore, no assurance can be given that the proceeds derived and expressed in Polish zloty will suffice to meet the investment requirements of the Group's contemplated acquisition pipeline. Whilst the companies of the Group may engage in currency hedging in an attempt to reduce the impact of currency fluctuations and the volatility of returns that may result from their currency exposure by, inter alia, entering into derivatives transactions, obtaining debt financing denominated in Euro, as well as concluding agreements with contractors specifying remuneration expressed in Euro, there can be no assurance that such hedging will be fully effective or beneficial. Moreover, given the fact that certain contractors of the Group engage in hedging arrangements with respect to their remuneration on the basis of, inter alia, construction contracts, their flexibility to postpone certain phases of construction may be limited and may result in their financial distress. In addition, given that payments under most of the Group's commercial leases are expressed as the local currency equivalent of a euro-denominated amount, some of the Group's tenants, specifically those leasing retail space, may face difficulties in meeting their payment obligations under such leases as they derive revenues in their respective local currencies. Consequently, any future material appreciation of the local currencies against the Euro could significantly decrease the Group's income in terms of the local currencies and could have a material adverse effect on the Group's business, financial condition, results of operations.

The Group is subject to interest rate risk

The Group currently has and intends to incur certain indebtedness under existing debt facilities which is subject to variable interest rates. Interest rates are highly sensitive to many factors, including government monetary policies and domestic and international economic and political conditions, as well as other factors beyond the Group's control. The Group's exposure to interest risk and the extent to which the Group attempts to hedge such exposure vary significantly between the geographical markets in which the Group operates, but any changes in the relevant interest rates may increase the Group's costs of borrowing in relation to existing loans, thus impacting its profitability. The need to hedge interest rate risk is reviewed by the Group on a case by case basis, except for those projects in which the lenders require it to hedge the relevant interest rate risk. Changes in interest rates may have a material adverse effect on the Group's business, financial condition, results of operations.

The Group's business is capital intensive, and additional financing may not be available on favourable terms, on a timely basis or at all

The Group requires substantial up-front expenditures for land acquisition, development construction and design costs. As a result, the Group requires substantial amounts of cash and construction financing from banks for its operations. The Group's capital needs depend on many factors, in particular on market conditions, which are beyond the Group's control. Should its capital needs differ significantly from those currently planned, the Group might require additional financing. In the case of difficulties in obtaining additional financing, the scale of the Group's growth and the pace of achievement of certain strategic objectives can be slower than originally assumed. It is not certain whether the Group will be able to obtain the required financing if needed or if such funds will be provided on conditions favourable to the Group.

In addition, construction loan agreements generally permit the drawdown of the loan funds against the achievement of predetermined construction and space leasing milestones or the sale of a specific number of flats. If the Group fails to achieve these milestones, the availability of the loan funds may be delayed, thereby causing a further delay in the construction schedule. Restrictions of or delays in the access to sources of external financing and conditions of such financing that are less favourable than assumed can have a material adverse effect on the Group's business, financial condition, results of operations.

Risk Factors Relating to the Macroeconomic, Political and Legal Environment in the Markets where the Group Operates

Political, economic and legal risks associated with countries in emerging markets, including CEE and SEE countries

All of the Group's revenues are attributable to operations in CEE and SEE countries, particularly Poland, Romania Serbia, Croatia and Hungary. These markets are subject to greater risk than more developed markets. CEE and SEE countries still present various risks to investors, such as instability or changes in national or local government authorities, land expropriation, changes in taxation legislation or regulation, changes to business practices or customs, changes to laws and regulations relating to currency repatriation and limitations on the level of foreign investment or development. In particular, the Group is affected by rules and regulations regarding foreign ownership of real estate and personal property. Such rules may change quickly and significantly and, as a result, impact the Group's ownership and may cause it to lose property or assets without legal recourse.

Furthermore, some countries may regulate or require governmental approval for the repatriation of investment income, capital or the proceeds of sales of securities by foreign investors. In addition, if there is a deterioration in a country's balance of payments or for other reasons, a country may impose temporary restrictions on foreign capital remittances abroad. Any such restrictions may adversely affect the Group's ability to repatriate investment loans or to remit dividends. Some CEE and SEE countries, have experienced substantial, and in some periods extremely high, rates of inflation for many years. Inflation and rapid fluctuations in inflation rates have had and may continue to have negative effects on the economies and securities markets of certain emerging countries.

In addition, adverse political or economic developments in neighboring countries could have a significant negative impact on, among other things, gross domestic product, foreign trade or economies in general of individual countries. The countries and the region in which the Group operates have experienced and may still be subject to potential political instability caused by changes in governments, political deadlock in the legislative process, tension and conflict between federal and regional authorities, corruption among government officials and social and ethnic unrest. In particular, the armed conflict in the territory of Ukraine and uncertainties regarding the relationship with Russia may affect the attitude of investors towards the regional real estate market and their willingness to invest in the countries neighboring with Ukraine and Russia, where the Group operates.

The Group may not be able to realise its expected rates of return if the real estate markets in CEE and SEE countries in which the Group operates become saturated and competition increases. Real estate markets may reach saturation if the supply of properties exceeds demand. Saturation in these markets would result in an increase in vacancy rates and/or a decrease in market rental rates and sale prices. As the commercial real estate markets in CEE and SEE are characterised predominantly by short-term leases, the Group expects that rental rates will decrease promptly in response to a perceived oversupply of lettable commercial space in those markets. If vacancy rates rise and/or market rental rates decrease, the Group may not be able to realise its expected rates of return on its projects or may be unable to let or sell its properties at all, which could have a material adverse effect on the Group's business, financial condition, results of operations.

The materialisation of any of the foregoing risks would have a material adverse effect on the Group's business, financial condition, results of operations.

The real estate market is cyclical

The real estate market is cyclical. Consequently, the number of projects completed by the Group has varied from year to year, depending on, among other things, general macro-economic factors, changes in the demographics of specific metropolitan areas, availability of financing and market prices of existing and new projects. Typically, growing demand results in greater expectations regarding the achieved profits and an increase in the number of new projects, as well as increased activity on the part of the Group's competitors. Because of the significant lag time between the moment a decision is taken to construct a project and its actual delivery, due in part to the protracted process of obtaining the required governmental consents and construction time, there is a risk that once a project is completed, the market will be saturated and the developer will not be able to lease or sell the project with the anticipated level of profits. An upturn in the market is typically followed by a downturn as new developers are deterred from commencing new projects due to reduced profit margins. There can be no assurance that during a downturn in the market the Group will be able to select projects which will fill actual demand during an upturn in the market. Additionally, the corporate bodies of the respective Group Companies that are expected to make certain investment decisions may not be able to properly asses the cycle of the real estate market and, consequently, accurately define the most favourable stage for completing the given investments.

All such events may have a material adverse effect on the Group's business, financial condition, results of operations.

The locations of the Group's properties are exposed to regional risks and could lose some of their appeal

The locations of each of the properties are influenced by macro-economic developments in the regions in which the Group operates, as well as being subject to specific local conditions in a given regional market. The Group's real estate portfolio focuses on commercial premises, which significantly exposes the Group to negative developments in those segments of the real estate market in the countries where the Group operates, including intensified competition or increased saturation.

Insolvencies, close-downs or moves of large companies or companies from individual or several sectors as a consequence of adverse developments or for other reasons could have a negative effect on the economic development of the location in question and, consequently, on the Group's portfolio as a whole. The Group has no control over such factors. Negative economic developments at one or more of the locations could reduce the Group's rental income or result in a loss of rent, which stem from a number of tenants being unable to pay their rent in full or in part, as well as cause a decline in the market value of the Group's properties, which may have a material adverse effect on the Group's business, financial condition, results of operations.

Changes in tax laws or their interpretation could affect the Group's financial condition and the cash flows available to the Group

Tax regulations in number of countries the Group operates in, including Poland, are complex and they are subject to frequent changes. The tax law practice of the tax authorities is not homogenous and there are rather significant discrepancies between the judicial decisions issued by administrative courts in tax law matters. No assurance may be given by the Company that the tax authorities will not employ a different interpretation of the tax laws which apply to the Group Companies, which may prove unfavourable to the Group. One may not exclude the risk that the specific individual tax interpretations already obtained and applied by the Group Companies will not be changed or questioned. There is also a risk that once new tax law regulations are introduced, the Group Companies will need to take actions to adjust thereto, which may result in greater costs forced by circumstances related with complying with the changed or new regulations.

In light of the foregoing, there can be no assurance given that the tax authorities will not question the accuracy of tax reporting and tax payments made by the Group Companies, in the scope of tax liabilities not barred by the statute of limitations, and that they will not determine the tax arrears of the Group Companies, which may have a material adverse effect on the Group Companies' business, financial standing, growth prospects or results of the Group.

Moreover, in relation to the cross-border nature of the Group's business, the international agreements, including the double tax treaties, to which the Republic of Poland is a party, also have an effect on the Group Companies' business. Different interpretations of the double tax treaties by the tax authorities as well as any changes to these treaties may have a material adverse effect on the business, financial standing or results of the Group Companies.

The related-party transactions carried out by the Group Companies could be questioned by the tax authorities

The Group Companies have carried out transactions with related parties. When concluding and performing related-party transactions, the Group Companies endeavour to take special care to ensure that such transactions comply with the applicable transfer pricing regulations. However, due to the specific nature of related-party transactions, the complexity and ambiguity of legal regulations governing the methods of examining the prices applied, as well as the difficulties in identifying comparable transactions for reference purposes, no assurance can be given that specific Group Companies will not be subject to inspections or other investigative activities undertaken by tax authorities or fiscal control authorities. Should the methods of determining arm's-length terms for the purpose of the above transactions be challenged, this may have a material adverse effect on the business, financial standing, growth prospects, results of the Group Companies.

Changes in laws could adversely affect the Group

The Group's operations are subject to various regulations in Poland, Romania, Hungary, Croatia, Serbia, Bulgaria and other jurisdictions in which the Group conducts business activities, such as fire and safety requirements, environmental regulations, labor laws, and land use restrictions. If the Group's projects and properties do not comply with these requirements, the Group may incur regulatory fines or damages.

Moreover, there can be no assurance that if perpetual usufruct fees in Poland are increased, the Group will be able to pass such costs onto its tenants in the form of increased service charges as such increase might lead to a given property becoming less competitive as compared to properties not situated on land subject to perpetual usufruct fees.

Furthermore, the imposition of more strict environmental, health and safety laws or enforcement policies in CEE and SEE could result in substantial costs and liabilities for the Group and could subject the properties that the Group owns or operates (or those formerly owned or operated by the Group) to more rigorous scrutiny than is currently applied. Consequently, compliance with these laws could result in substantial costs resulting from any required removal, investigation or remediation, and the presence of such substances on the Group's properties may restrict its ability to sell the property or use the property as collateral.

New, or amendments to existing, laws, rules, regulations, or ordinances could require significant unanticipated expenditures or impose restrictions on the use of the properties and could have a material adverse effect on the Group's business, financial condition, results of operations.

Unlawful, selective or arbitrary government actions may impact the Group's ability to secure the agreements, contracts and permits required for it to develop its projects

Government authorities in the geographical markets in which the Group operates have a high degree of discretion and may not be subject to supervision by other authorities, requirements to provide a hearing or prior notice or public scrutiny. Therefore, government authorities may exercise their discretion arbitrarily or selectively or in an unlawful manner and may be influenced by political or commercial considerations. The Group has faced administrative decisions in the past which forced it to unexpectedly change its investment plans (including limiting the scale of a project). Such discretion may have a material adverse effect on the Group's business, financial condition, results of operations.

The land and mortgage registry systems in certain of the CEE and SEE jurisdictions are non-transparent and inefficient, and the Group's properties may be subject to restitution claims

The land and mortgage registry systems in certain of the CEE and SEE jurisdictions are non-transparent and inefficient, which may, inter alia, result in delays in the land acquisition process and the registration of many plots into one consolidated plot, which is a requirement before certain projects can be developed. This inefficiency could have a material adverse effect on the business, cash flows, financial condition, results of operations of the Group.

Moreover, the Group may be exposed to the inherent risk related to investing in real estate situated in CEE and SEE countries resulting from the unregulated legal status of some of such real properties. Following the introduction of nationalization in certain CEE and SEE jurisdictions, including Poland and Hungary, during the post-war years, many privately-owned properties and businesses were taken over by such states. In many cases, the requisition of the property took place in contravention of prevailing laws. After the CEE and SEE countries moved to a market economy system in 1989-1990, many former property owners or their legal successors took steps to recover the properties or businesses lost after the war or to obtain compensation. For many years efforts have been made to regulate the issue of restitution claims in Poland. Despite several attempts, no act regulating the restitution process has been passed in Poland. Under the current law, former owners of properties or their legal successors may file applications with the authorities for the administrative decisions under which the properties were taken away from them to be revoked. As at the date of the delivery of this Report, there are no proceedings underway seeking the invalidation of administrative decisions issued by the authorities concerning properties held by the Group. There is no guarantee, however, that restitution claims may not be brought against the Group in the future, and this could have a material adverse effect on the Group's business, financial condition, results of operations.

The Group's claims to the titles to investment and development properties may be subject to challenge in certain cases, and permits in relation to such properties may have been obtained in breach of applicable laws

It may be difficult or, in certain cases, impossible for the Group to establish with certainty that the title to a property has been vested in a relevant Group company due to the fact that real estate laws in Poland and other jurisdictions in which the Group operates are complicated and often ambiguous and/or contradictory and the relevant registries may not be reliable. For example, under the laws of Poland, transactions involving real estate may be challenged on many grounds, including where the seller or assignor to a given property did not have the right to dispose of such property, for a breach of the corporate approval requirements by a counterparty or a failure to register the transfer of a title in an official register, when required. Also, even if a title to real property is registered, it may still be contested. Therefore, there can be no assurance that the Group's claim to a title would be upheld if challenged. Further, it is possible that permits, authorisations, re-zoning approvals or other similar decisions may have been obtained in breach of applicable laws or regulations. Such matters would be susceptible to subsequent challenge. Similar issues may arise in the context of compliance with privatisation procedures and auctions related to the acquisition of land leases and development rights. It may be difficult, or impossible, to monitor, assess or verify these concerns. If any of these permits, authorisations, re-zoning approvals or other similar requirements were to be challenged, this may have a material adverse effect on the Group's business, financial condition, results of operations.

Risk Factors Relating to the Shareholding Structure of the Company and Corporate Governance

There may be potential conflicts of interest between the Group and the Group's controlling shareholder

LSREF III GTC Investments B.V. ("LSREF"), which is fully controlled by Lone Star Real Estate Fund III LP (with its registered office in the United States of America) and Lone Star Real Estate Fund III LP (with its registered office in Bermuda) (jointly, "Lone Star Real Estate Fund III"), is the Group's controlling shareholder as of the date of the delivery of this Report. Lone Star Real Estate Fund III, a fund specialising in real property investments, is managed by Lone Star Funds. Lone Star Funds ("Lone Star"), is a leading private equity firm that invests globally in real estate, equity, credit and other financial assets.

Lone Star's representatives constitute the majority of the Supervisory Board and may thus control the appointment of the Management Board. Consequently, Lone Star may influence the decision making process in the Company. Accordingly, in considering any investment, business and operational matters of the Company and the most appropriate uses for the Company's available cash, the interests of Lone Star and of Lone Star Real Estate Fund III may not be aligned with the interests of the Company or of its other stakeholders.

Moreover, Lone Star and Lone Star Real Estate Fund III operate in the same market as the Group and they may compete over investments that the Group may be interested in. Any such conflicts of interest may have an adverse effect on the Group's business, financial condition, results of operations.

Furthermore, as in the case of any significant shareholder, all of the shares of the Company may be offered for sale without any restrictions and there can be no assurance as to whether or not they will be sold on the market and at which price. Such sale, or new issuance of shares, may adversely affect the price of the Company's share in the market, or an offering of the Company's shares, if any.

Because the Company is a holding company, its ability to pay dividends depends upon the ability of its subsidiaries to pay dividends and advance funds

The dividend policy is strictly connected with the general business strategy of the Group. The Group introduced a dividend policy in 2017, however the amount which may be distributed by the Company in accordance with the Polish law depends on the net profit and certain other figures reflected in the Company's stand-alone financial statements. Such figures may differ from the figures included in the Group's consolidated financial statements which are prepared in accordance with the IFRS.

As a holding company, the Company's ability to pay dividends depends upon the ability of its subsidiaries to pay dividends and advance funds to the Company. Therefore, there can be no assurance that the Company will declare or pay any dividends to its shareholders in the future. The payment and amount of any future dividends will depend on the Management Board's assessment of factors such as long-term growth and earnings trends, the need for sufficient liquidity, the need for investment in the Company's existing project portfolio, the existence of alternative investment opportunities and the Company's financial position in general. This may have a material adverse effect on the Group's business, financial condition, results of operations.

Future offerings of debt or equity securities offered by the Company may adversely affect the market price of the Shares and dilute the shareholders' interests

To finance future acquisitions, the Company may raise additional capital by offering debt or additional equity securities, including convertible notes, medium-term notes, senior or subordinated notes and ordinary shares. The issuance of equity or debt securities with conversion rights may dilute the economic and voting rights of existing shareholders, if made without granting pre-emptive or other subscription rights, or reduce the price of the Company's shares, or both. The exercise of conversion rights or options by the holders of convertible or warrant-linked bonds that the Company may issue in the future may also dilute the shareholders' interests. Holders of the Company's ordinary shares have statutory pre-emptive rights entitling them to purchase a percentage of every issuance of the Company's ordinary shares. As a result, holders of the Company's ordinary shares may, in certain circumstances, have the right to purchase ordinary shares that the Company may issue in the future in order to preserve their percentage ownership interest in the Company, thereby reducing the percentage ownership interest of other investors. Because any decision by the Company to issue additional securities depends on market conditions and other factors beyond the Company's control, the Company cannot predict or estimate the amount, timing or nature of any such future issuances. Thus, prospective investors bear the risk of the Company's future offerings reducing the market price of the Shares and diluting their interest in the Company.

Item 4. Presentation of the Group

Item 4.1. General information about the Group

The GTC Group is a leading real estate investor and developer focusing on Poland and four capital cities in Eastern and Southern Europe - Belgrade, Budapest, Bucharest, Zagreb and Sofia. The Group was established in 1994.

The Group's portfolio comprises: (i) completed commercial properties; (ii) commercial properties under construction; (iii) a commercial landbank intended for future development and (iv) residential project and landbank.

Since its establishment and as at 31 December 2017 the Group has: (i) developed 1.1 million sq. m of gross commercial space and over 300 thousand sq. m of residential space; (ii) sold over 500 thousand sq. m of gross commercial space in completed commercial properties and approximately 300 thousand sq. m of residential space; and (iii) acquired approximately 112 thousand sq. m of commercial space in completed commercial properties. Additionally GTC Group developed and sold over 100 thousand sq. m of commercial space and approximately 76 thousand sq. m of residential space through its associates in Czech Republic.

As of 31 December 2017, the Group`s property portfolio comprised the following properties:

- 37 completed commercial buildings, including 34 office buildings and three retail properties with a total combined commercial space of approximately 621 thousand sq. m of GLA, of which the Group's proportional interest amounts to approximately 611 thousand sq. m of GLA;
- five commercial projects under construction, including four office projects and one retail project with total GLA of approximately 128 thousand sq. m, of which the Group's proportional interest amounts to 128 thousand sq. m of GLA;
- commercial landbank designated for future development;
- one completed residential project; and
- residential landbank.

As of 31 December 2017, the book value of the Group's portfolio amounts to €1,957,630 with: (i) the Group's completed commercial properties account for 84% thereof; (ii) commercial properties under construction – 8%; (iii) a commercial landbank intended for future development– 7%; (iv) residential projects and landbank account for 1%. Based on the Group's assessment approximately 97% of the portfolio is core and remaining 3% is non-core assets, including non-core landplots and residential projects.

Additionally, the Group manages third party assets in Warsaw and Katowice.

The Company's shares are listed on the WSE and inward listed on the Johannesburg Stock Exchange. The Company's shares are included in WIG 30 and the Dow Jones STOXX Eastern Europe 300.

The Group's headquarters are located in Warsaw, at 17 Stycznia 45A.

Item 4.2. Main events of 2017

In March 2017, the Group completed the third building of the FortyOne office complex in Belgrade.

On 4 May 2017, the Group sold Galleria Burgas and Galleria Stara Zagora in Bulgaria in line with its strategy to focus its investment on Poland and three capital cities in CEE and SEE region.

In the first quarter of 2017, the Group started Green Heart office project in Belgrade. Complex will include two existing buildings (GTC Square) which will have massive renovation. Three new building will offer 25,500 sq. m of premium office space. The total leasable area of complex will be 46,000 sq. m.

In May 2017, the Company's shareholders adopted a resolution regarding a distribution of dividend in the amount of PLN 124,258 (€29,500) and allowing the Company's shareholders to elect to receive the dividend in the form of newly issued shares or in cash depending what shareholders prefer. As a result in June 2017, the Company issued 10,087,026 series L Shares to some of the Company's shareholders €21,400 and paid a dividend in the amount of €8,100 to remaining shareholders.

In May 2017, the Group acquired a subsidiary, which holds a land plot in Budapest, Hungary (Kompakt), for a total amount of €12,500. The Group intends to build an office building on the plot.

In June 2017, the Group acquired a land plot in Bucharest, Romania (Rose Garden Park), for a total amount of €10,525. The Group intends to build an office building on the plot.

In July 2017, the group acquired Cascade Office Building, an office building in Bucharest, Romania, for a total amount of €3,300 (net of liabilities). The building offers 4,200 sq. m of premium office space.

In August 2017, the Group acquired a land plot in Sofia, Bulgaria (Advance Business Park II), for a total amount of €6,200. The Group intends to build an office building on the plot.

In September 2017, the group acquired Belgrade Business Center in Serbia for a total amount of €36,800. The amount of €34,800 has been paid. The remaining €2,000 will be paid subject to the seller fulfilling certain conditions.

In September 2017, the Group completed Galeria Północna, shopping mall in Warsaw, Poland.

In December 2017, the Group has completed Artico office building in Warsaw.

In 2017, the Company issued 3-year Euro denominated bonds, listed on WSE and three year Schuldschein loan in in the total amount of €78,604.

In December 2017, the Group refinanced Avenue Mall shopping centre. The total loan amounts to €50,000. The proceeds from refinance received in January 2018.

In December 2017, the Group refinanced Galeria Północna shopping centre. The total loan amounts to €200,000.

In December 2017, the Group acquired a land plot in Zagreb, Croatia (Matrix future phases) for a total amount of €12,300. The Group intends to build office buildings on the plot.

Events that took place after 31 December 2017:

In March 2018, GTC SA issued three-year euro denominated bonds, listed on WSE, in the total amount of €20,494

Item 4.3. Structure of the Group

The structure of Globe Trade Centre S.A. Capital Group as of 31 December 2017 is presented in the Consolidated Financial Statements for the year ended 31 December 2017 in Note 8 "Investment in subsidiaries, associates and joint ventures".

The following changes in structure of the Group occurred in the twelve-month period ended 31 December 2017:

- GTC Nekretnine Jug. d.o.o was liquidated
- Havern Investments sp. z o.o. was liquidated
- GTC GK Office Sp. z o.o was liquidated
- Black Sea Management LLC was liquidated
- Calobra Sp. z o.o. Sp. j. was liquidated
- Mantezja 4 Sp. z o.o. Sp. j. was liquidated
- Commercial Properties B.V. was liquidated
- Brightpoint Investments Limited was liquidated
- Ana Tower Offices S.R.L. was sold
- GTC Slovakia Real Estate s.r.o. was sold
- Galeria Stara Zagora EAD was sold
- Galeria Burgas AD was sold
- Spiral I. Kft. and Spiral Holding Kft. were merged
- Mastix Ltd. was merged into GTC White House Ltd
- SASAD Resort Offices Kft and Abritus Kft. were merged into Centre Point I. Kft
- Kompakt Land Kft was purchased
- Cascade Building S.R.L was purchased
- GTC BBC d.o.o was purchased
- GTC Real Estate Vinohrady s.r.o. is under liquidation
- Riverside Apartmanok Kft. is under liquidation

- Europort Ukraine Holdings 2 LLC . is under liquidation
- CID Holding S.A. is under liquidation
- River Loft Apartmanok Ltd is under liquidation.

Item 4.4. Changes to the principal rules of the management of the Company and the Group

There were no changes to the principal rules of management of the Company and the Group.

Item 4.5. The Group's Strategy

The Group's objective is to create value from:

- active management of a growing commercial real estate portfolio in CEE and SEE, supplemented by selected development activities; and
- enhancing deal flow, mitigating risks and optimising performance through its regional platform, by investing its own funds, the proceeds from share capital increase and reinvesting potential proceeds from the sale of real properties.

The Group implements the following elements, among others, to achieve its strategic objectives:

Acquiring yielding properties in Poland and in capital cities of selected CEE and SEE countries

The Group's strategic objective is to expand its portfolio by acquiring yielding properties in Poland and in capital cities of selected CEE and SEE countries that have value added potential.

The Management Board believes that the current market conditions, including the attractive pricing of yielding properties and the widening range of potential sellers, present compelling real estate acquisition opportunities for both individual assets and portfolios at attractive prices. The Management Board will carefully consider and evaluate attractive investment opportunities, which meet the investment criteria of the Group, while taking into consideration the prevailing market yields and the Group's investment criteria targets.

In addition, in implementing its strategic objective of expanding its portfolio, the Group is well-positioned to benefit from:

- the exceptional high yield spread in the current low interest rate environment, allowing for highly accretive growth;
- the future growth potential in Poland, and capital cities in the Group's countries of operation if the macro environment improves;
- selective approach by lender that operate in the CEE and SEE regions, which limits competition from other potential purchasers;
- limited offer of high class office and retail space in some markets, which in turn results in increased demand for renting space in class A properties.

The Group's acquisition strategy includes the acquisition of income generating assets with value-added potential and / or high FFO yield that meet the following criteria:

- office and retail assets;
- located in Warsaw or secondary cities in Poland or in the capital cities of CEE/SEE countries;
- cash generation ability (upon acquisition or shortly after)

- potential growth of net operating income, through re-leasing optimising occupancy, rental rates, and/or redevelopment; and
- potential to increase return on equity through active asset management.

The Group's expansion will be selective and will be evaluated based on market opportunity, demand and potential return on investment. The Group may invest alone or may co-invest with partners, which will allow for increased portfolio diversification and boost the scope of investments.

Based on our market conditions and our strict criteria during the year 2017 we acquired:

- Cascade Office Building (office building located in Bucharest, Romania)
- Belgrade Business Center (office building located in Belgrade, Serbia)

Since the end of 2015 we also acquired:

- Duna Tower (office building located in Budapest, Hungary)
- Pixel (office building located in Poznań, Poland)
- Premium Point (office building located in Bucharest, Romania)
- Premium Plaza (office building located in Bucharest, Romania)
- Neptun Office Center (office building located in Gdańsk, Poland)
- Sterlinga Business Center (office building located in Łódź, Poland)

Improving the efficiency of asset management activities and maximising operating performance

The Group will continue to actively manage its current and future income-generating commercial property portfolio to maximise operating performance and efficiency, diversify tenant risk and enhance rental income.

The Group intends at least to maintain high value to its portfolio through its asset management activities. Such activities include:

- increasing and maintaining occupancy on best achievable market terms;
- maintaining high collection efficiency by strict monitoring of receivables;
- striving for a low and efficient cost base by using energy efficient technologies and optimising property repair and maintenance costs;
- optimising development costs by revising and cost-engineering its developments without detriment to the competitiveness of any individual asset;
- optimising administrative costs where possible; and
- optimising the costs of finance through refinancing where possible.

The Management Board believes that, on a long-term basis, active asset management of completed assets will constitutes a key success factor of the Group's strategy.

Developing selected projects in the pre-construction or construction stage

Another core growth source under the Group's strategy is the development of commercial projects in areas where there is demand for commercial properties. These areas include a number of office projects and one shopping center.

The development of those projects, which as at the date of the Report were in the construction stage (Ada Mall, White House, Green Heart, Advance Business Center I and Matrix A) or the pre-construction stage (The Twist Budapest City Tower, Matrix B, Advance Business Center II, Kompakt, City Rose Park,), is an important value driver of the Group. As of 31 December 2017, projects under construction represent approximately 8% of the Group's portfolio value.

Currently, we have five projects consisting of 128,000 sq. m of office and retail space under construction:

- Ada Mall - a retail and entertainment centre being built by the Group in Belgrade with up to approximately 34,400 sq. m of GLA;
- White House – an office building in Budapest with approximately 21,500 sq. m of GLA;
- Green Heart - a complex of office buildings being built in Belgrade, Serbia with intended GLA of approximately 46,000 sq. m;
- Matrix A - an office building being built in Zagreb, Croatia with intended GLA of approximately 10,400 sq. m
- Advance Business Center I - an office building being built in Sofia, Bulgaria with intended GLA of approximately 15,600 sq. m.

We have another five projects consisting of 218,400 sq. m in the pre-construction stage:

- The Twist - Budapest City Tower - an office building being built in Budapest, Hungary with intended GLA of approximately 36,000 sq. m;
- Matrix B - an office building being built in Zagreb, Croatia with intended GLA of approximately 10,400 sq. m;
- Advance Business Center II - an office building being built in Sofia, Bulgaria with intended GLA of approximately 17,500 sq. m;
- Kompakt - an office complex being built in Budapest, Hungary with intended GLA of approximately 29,000 sq. m
- City Rose Park 1&2 - an office complex being built in Bucharest, Romania with intended GLA of approximately 35,500 sq. m

In addition, our rich commercial landbank designated for future development allow us to extend the planned projects in areas where there will be demand for commercial properties.

The Group is a real estate investor and developer and adjust its development activities to the market conditions. The Management Board believes that this approach allows the Group to better respond to the changing conditions of the real estate market and focus on more active and efficient asset management of its existing as well as its expanded portfolio. Subject to prevailing market conditions, in order to improve the recurring operating income, in the mid-term the Group intends to structure its real estate portfolio in such a manner whereby more than half of its value is attributed to income-generating assets and the remaining portion to trading and development.

Disposal of mature assets

The Group may sell certain of its mature assets from its portfolio (i.e. completed commercial properties which generate a stable flow of rental income and which, in the Group's view, have reached their long-term value).

Moreover, following the acquisition of existing income-generating properties and increasing their value, the Group may also sell such properties.

Maintaining a balanced mix of investments across CEE and SEE regions and adapting to changes in the real estate markets

The Group intends to continue to focus its real estate management and development activities on properties located in Warsaw or secondary cities in Poland and in the capital cities of CEE and SEE countries, as such are characterised by macroeconomic stability, continued GDP growth and investor and tenant demand. The Group believes that some other markets, in which it operates also offer long-term growth potential due to their relatively underdeveloped real estate markets and relatively illiquid markets. Further investments in these markets will be explored on an opportunistic basis with strict risk adjusted return hurdles. At the same time, specific performance requirements will be imposed on all assets in the Group's portfolio.

The Group aims to create and maximise shareholder value by constantly adapting to changes in the markets in which it operates whilst maintaining maximum performance of its core portfolio of assets.

Item 4.6. Business overview

The Group's core business is geared towards commercial real estate, with a clear focus on creating value from active management of a growing real estate portfolio in CEE and SEE supplemented by selected development activities. As of 31 December 2017 , the book value of the Group's investment property, residential inventory, landbank and assets held for sale amounted to €1,957,630. The Groups investment properties include income generating assets (completed properties), projects under construction and commercial landbank.

Investment portfolio

As of 31 December 2017, the Group manages completed commercial properties with a combined gross rentable area of approximately 621 thousand sq. m, including 34 office buildings and three retail properties, which constituted 84% of the overall portfolio.

The Group's office buildings provide convenient space, flexible interiors and a comfortable working environment. They are located in the heart of business districts and in proximity to the most important transport routes, including international airports. All projects have earned the trust of a significant number of international corporations and other prestigious institutions, including: the European Bank for Reconstruction and Development, Microsoft, Bertelsmann, Hewlett Packard, IBM, KPMG, Fujitsu, Unit4, Hitachi, Pandora, Allegro Group, Huawei, Bosch, UniCredit, Philip Morris, Roche, State Street, ExxonMobil.

The Group's shopping centres are located in both capital cities as well as in secondary cities in Poland, Bulgaria and Croatia. They are always very highly ranked in the city of their location. The tenants include big multinationals as well as local brands like: Carrefour, LPP, TK Max, Zara, H&M, Cinema City, New Yorker and others.

Projects under construction

As of 31 December 2017, the Group had five projects classified as investment under construction with a book value of €148,400, which constituted 8% of the Group's overall portfolio.

Commercial landbank

As of 31 December 2017, the Group had land classified as commercial landbank designated for future development of €139,258, which constituted 7% of the Group's overall portfolio (by value). This landbank includes projects that are on Group`s focus for coming year like: Matrix B, The Twist - Budapest City Tower, City Rose Park 1&2, Advance Business Center II and Kompakt, which constitute 2% of group's overall portfolio (31% of commercial landbank).

In addition, our rich commercial landbank designated for future development allow us to extend the planned projects in areas where there will be demand for commercial properties.

Residential inventory and landbank

Over past 24 years, the Group also used to develop residential units for sale, however is phasing out of that market segment. As of 31 December 2017, the Group held residential inventory of both completed and landbank projects with a total value of €16,453, which constituted 1% of the Group's overall portfolio.

Item 4.6.1. Overview of investment portfolio

The Group`s strategy focuses on creating value from active management of a growing real estate portfolio in CEE and SEE. The Group has presence in Poland, Belgrade, Budapest, Bucharest and Zagreb. The Group focused on commercial assets, mainly office buildings and office parks as well as retail and entertainment centres. The Groups investment properties include income generating assets (completed properties), projects under construction and commercial landbank.

Item 4.6.1.1. Overview of income generating assets

As of 31 December 2017, the Group had 37 income generating assets totaling 621 thousand sq. m and valued €1,649,183. The average occupancy rate within the income generating portfolio was 94% as of 31 December 2017. The portfolio was valued based on average yield of 6.8%. Average duration of leases in Group`s income generating portfolio was 3.3 years and the average rental rate was €16.1 / sq. m / month.

Approximately 58% of the income generating portfolio is located in Poland, 14% in Budapest, 12% in Bucharest, 10% in Belgrade and remaining 6% in Zagreb.

As of 31 December 2017, the value of office properties accounted for around 62% and retail properties accounted for the remaining 38% of income generating portfolio.

The following table presents income generating portfolio by main usage type as of 31 December 2017:

Usage type	Total gross leasable area (sq. m)	% of total income generating portfolio (sq. m)	Average occupancy (%)	Book value (€)	% of total book value
Office	474,000	76%	94%	1,017,771	62%
Retail[1]	147,000	24%	94%	631,412	38%
Total	**621,000**	**100%**	**94%**	**1,649,183**	**100%**

[1]Including Avenue Center, Zagreb,Croatia

The following table presents income generating portfolio by country in which the Group operates of 31 December 2017:

Country	Total gross leasable area (sq. m)	% of total income generating portfolio (sq. m)	Average occupancy (%)	Book value (€)	% of total book value
Poland	325,000	52%	91%	956,679	58%
Budapest	119,000	19%	98%	228,865	14%
Bucharest	67,000	11%	97%	195,746	12%
Belgrade	76,000	12%	97%	163,181	10%
Zagreb	34,000	6%	99%	104,712	6%
Total	**621,000**	**100%**	**94%**	**1,649,183**	**100%**

Item 4.6.1.1.1. Overview of the office portfolio

As of 31 December 2017, the Group office portfolio comprised of 34 office buildings. Total gross rentable office space was 474 thousand sq. m compared to 456 sq. m as of 31 December 2016. Total value of office portfolio as of 31 December 2017 was €1,017,771 compared to €936,271 as of 31 December 2016. Increase in value and space is mainly due to completion of FortyOne III in Belgrade and Artico in Warsaw as well as acquisition of: Belgrade Business Center in Belgrade and Cascade Office building in Bucharest. The Group's office buildings are located in Poland, and capital cities of other countries of CEE and SEE region: Budapest, Belgrade, Zagreb and Bucharest (Avenue Center is a part of Avenue Mall Zagreb and its presented together with Avenue Mall Zagreb in retail segment).

The following table presents office portfolio by country as of 31 December 2017:

Country	Total gross leasable area (sq. m)	% of total office portfolio (sq. m)	Average occupancy (%)	Book value (€)	% of total book value
Poland	212,000	45%	89%	429,979	42%
Budapest	119,000	25%	98%	228,865	22%
Bucharest	67,000	16%	97%	195,746	19%
Belgrade	76,000	14%	97%	163,181	16%
Subtotal	**474,000**	**100%**	**93%**	**1,017,771**	**100%**

Item 4.6.1.1.1.1 Office portfolio in Poland

The total gross rentable area in Poland comprised 212 thousand sq. m in 17 office buildings located in Warsaw, Kraków, Łódź, Katowice, Poznań, Wrocław and Gdańsk. The average occupancy rate was at the level of 89%. The average duration of leases was 3.2 years at the year end and applied yield was at the level of 7.4%. The average rental rate generated by the office portfolio in Poland was at the level of €14.2 /sq. m/month. Book value of the office portfolio in Poland amounted to €429,979 as of 31 December 2017 compared to €394,418 as of 31 December 2016. The difference comes mainly from completion of Artico in Warsaw and from value appreciation of Korona Office Complex and University Business Park B, following improvement in operating results.

The following table lists the Group's office properties located in Poland:

Property	Location	GTC's share	Total gross rentable area	Year of completion
		(%)	(sq. m)	
Galileo	Kraków	100%	10,900	2003
Globis Poznan	Poznań	100%	13,500	2003
Newton	Kraków	100%	10,600	2007
Edison	Kraków	100%	10,800	2007
Nothus	Warsaw	100%	9,600	2007
Zephirus	Warsaw	100%	9,600	2008
Globis Wroclaw	Wrocław	100%	16,100	2008
University Business Park A	Łódź	100%	20,200	2010
Francuska Office Centre	Katowice	100%	23,000	2010
Corius	Warsaw	100%	9,600	2011
Pascal	Kraków	100%	5,900	2014
Pixel	Poznań	100%	14,300	2013
University Business Park B	Łódź	100%	20,200	2016
Sterlinga Business Center	Łódź	100%	13,400	2010
Neptun Office Center	Gdańsk	100%	16,100	2014
Artico	Warsaw	100%	7,700	2017
		Total	**211,500**	

Item 4.6.1.1.1.2 Office portfolio in Budapest

The Group's total gross rentable area in Budapest comprised 119 thousand sq. m in five office buildings. The occupancy rate was at the level of 98%. The average duration of leases was 2.3 years at the year end and applied yield was at the level of 7.3%. The average rental rate generated by the office portfolio in Budapest was at the level of €12.1 / sq. m / month. Book value of the Group's office portfolio in Budapest amounted to €228,865 as of 31 December 2017, as compared to €216,206 as of 31 December 2016. An increase comes mainly from value appreciation of Center Point and Duna Tower, following increase in rental rates and yield compression.

The following table lists the Group's office properties located in Budapest:

Property	Location	GTC's share	Total gross rentable area	Year of completion
		(%)	(sq. m)	
Center Point I&II	Budapest	100%	40,900	2004/2006
Duna Tower	Budapest	100%	31,300	2006
Spiral	Budapest	100%	30,600	2009
Metro	Budapest	100%	16,200	2010
		Total	**119,000**	

Item 4.6.1.1.1.3 Office portfolio in Belgrade

The Group's total gross rentable area in Belgrade comprised 76 thousand sq. m in six office buildings. The occupancy rate was at the level of 97%. The average duration of leases was 2.4 years at the year end and applied yield was at the level of 8.3%. The average rental rate generated by the office portfolio in Belgrade was at the level of €16.4 / sq. m / month. Book value of the Group's office portfolio in Belgrade amounted to €163,181 as of 31 December 2017 compared to €139,981 as of 31 December 2016. An increase comes mainly from completion of FortyOne phase III and acquisition of Belgrade Business Center which was partially offset by reclassification of GTC Square to assets under construction as they will be refurbished as part of Green Heart project.

The following table lists the Group's office properties located in Belgrade:

Property	Location	GTC's share	Total gross rentable area	Year of completion
		(%)	(sq. m)	
GTC House	Belgrade	100%	13,300	2005
Avenue 19	Belgrade	100%	17,100	2008
FortyOne phase I	Belgrade	100%	10,100	2015
FortyOne phase II	Belgrade	100%	7,200	2016
FortyOne phase III	Belgrade	100%	10,700	2017
Belgrade Business Center[1]	Belgrade	100%	17,700	2009
		Total	**76,100**	

[1]Property acquired in 2017

Item 4.6.1.1.1.4 Office portfolio in Bucharest

The Group's total gross rentable area in Bucharest comprised 67 thousand sq. m in five office buildings. The occupancy rate was at the level of 97%. The average duration of leases was 3.4 years at the year end and applied yield was at the level of 7.4%. The average rental rate generated by the office portfolio in Bucharest was at the level of €18.4/ sq. m / month. Book value of the Group's office portfolio in Bucharest amounted to €195,746 as of 31 December 2017, as compared to €185,520 as of 31 December 2016. An increase comes mainly from acquisition Cascade Office building.

The following table lists the Group's office properties located in Bucharest:

Property	Location	GTC's share	Total gross rentable area	Year of completion
		(%)	(sq. m)	
City Gate	Bucharest	100%	47,600	2009
Premium Point	Bucharest	100%	6,400	2009
Premium Plaza	Bucharest	100%	8,500	2008
Cascade Office	Bucharest	100%	4,200	2005
		Total	**66,700**	

[1] Property acquired in 2017

Item 4.6.1.1.1.5 Office portfolio in Zagreb

The Group's total gross rentable area in Croatia comprises 7 thousand sq. m in one office building. The occupancy rate (100%) and the book value of the Group's office portfolio in Croatia are presented together with the data for Avenue Mall Zagreb.

The following table lists the Group's office investment properties located in Zagreb:

Property	Location	GTC's share	Total gross rentable area	Year of completion
		(%)	(sq. m)	
Avenue Center	Zagreb	70%	7,000	2007
		Total	**7,000**	

Item 4.6.1.1.2. Overview of retail portfolio

As of 31 December 2017, the Group's retail properties comprised three shopping centres with a total gross rentable area of 147 thousand sq. m compared to 140 thousand sq. m as of 31 December 2016. The total value of retail investment properties as of 31 December 2017 was €631,412 compared to €324,919 as of 31 December 2016. An increase in value comes mainly from completion of Galeria Północna and value appreciation of Galeria Jurajska following an improvement in operations, partially offset by disposal of Galleria Burgas and Galleria Stara Zagora. The Group's retail properties are located in Poland and Zagreb.

The following table presents retail portfolio by country as of 31 December 2017:

Country	Total gross leasable area (sq. m)	% of total retail portfolio (%)	Average occupancy (%)	Book value (€)	% of total book value
Poland	113,000	77%	93%	526,700	83%
Croatia[1]	34,000	23%	99%	104,712	17%
Total	147,000	**100%**	**94%**	**631,412**	**100%**

[1] Including book value of Avenue Center, Croatia

Item 4.6.1.1.2.1 Retail portfolio in Poland

The total gross rentable area of retail space in Poland comprises 113.5 thousand sq. m in two retail scheme in Warsaw and Częstochowa. The average occupancy rate was at the level of 93%. The average duration of leases was 5.0 years at the year end and applied yield was at the level of 5.6%. The average rental rate generated by the retail portfolio in Poland was at the level of €20.6 / sq. m / month. Book value of the Group's retail portfolio in Poland amounted to €526,700 as of 31 December 2017, as compared to €164,506 as of 31 December 2016. An increase comes mainly from completion of Galeria Północna and value appreciation of Galeria Jurajska following an improvement in operations and yield compression.

The following table lists the Group's retail properties located in Poland:

Property	Location	GTC's share	Total gross rentable area	Year of completion
		(%)	(sq. m)	
Galeria Jurajska	Częstochowa	100%	48,700	2009
Galeria Północna	Warsaw	100%	64,800	2017
		Total	**113,500**	

Item 4.6.1.1.2.2 Retail portfolio in Zagreb

The Group's total gross rentable area of retail space in Zagreb comprised 34 thousand sq. m (including Avenue Center) in one retail scheme. The occupancy rate was at the level of 99%. The average duration of leases was 2.9 years at the year end and applied yield was at the level of 6.8%. The average rental rate generated by the retail portfolio in Zagreb was at the level of €20.8 / sq. m / month. Book value of the Group's retail portfolio in Zagreb amounted to €104,712 (including book value of Avenue Center) as of 31 December 2017 compared to €103,213 as of 31 December 2016.

The following table lists the Group's retail properties located in Zagreb:

Property	Location	GTC's share	Total gross rentable area	Year of completion
		(%)	(sq. m)	
Avenue Mall Zagreb[1]	Zagreb	70%	34,300	2007
		Total	**34,300**	

[1]Including Avenue Center

Item 4.6.1.2 Overview of properties under construction

As of 31 December 2017, the Group had five project under construction including one retail projects and four office projects with a total gross rentable area of 128 thousand sq. m and a book value of €148,400.

The following table lists the Group's properties under construction:

Property	Segment	Location	GTC's share	Total gross leasable area (sq. m)	Expected completion
White House	office	Budapest, Hungary	100%	21,500	Q2 2018
Ada Mall	retail	Belgrade, Serbia	100%	34,400	Q1 2019
Green Heart	office	Belgrade, Serbia	100%	46,000	2018/2019
Advance Business Center I	office	Bucharest, Romania	100%	15,600	Q1 2019
Matrix A	office	Zagreb, Croatia	100%	10,400	Q2 2019
Total				**127,900**	

Item 4.6.1.3. Overview of commercial landbank

Management, has conducted a thorough, asset by asset, review of the whole portfolio, in parallel to its decision to focus on Group's new developments efforts, solely on the strongest markets and, whilst supporting only the projects in its portfolio, which give the strongest mid-term upside potential, while reducing. Concurrently, the Management decided to reduce the cash allocation towards projects that has a longer term investment horizon. The above implied re-assessment of the some of GTC's landbank projects development timetable, and rescheduling them to a later stage or designating them for sale.

Additionally, in some cases, in view due to the decline in consumption and deteriorating of purchasing power, the timetable for stabilization of in relevant catchment areas around certain completed and cash generating assets in SEE, the timetable for stabilization of had to be re-assessed, and consequently expectations for stabilized income were deferred.

As of 31 December 2017, the Group had land classified as commercial landbank designated for future commercial development with same land plots defined as for sale of €139,258. This landbank, designated for future commercial development, includes projects that are on Group`s focus for coming years.

The following table lists the Group's projects that are in pre-construction stage:

Property	Segment	Location	GTC's share	Total gross leasable area (sq. m)
Advance Business Center II	office	Sofia, Bulgaria	100%	17,500
City Rose Park 1&2	office	Bucharest, Romania	100%	35,500
Matrix B	office	Zagreb, Croatia	100%	10,400
Kompakt	office	Budapest, Hungary	100%	29,000
The Twist – Belgrade City Tower	office	Belgrade, Serbia	100%	36,000
Total				**128,400**

In addition, our rich commercial landbank designated for future development allow us to extend the planned projects in areas where there will be demand for commercial properties.

Item 4.6.2. Residential inventory and landbank

As of 31 December 2017, the Group held residential inventory of both completed projects and landbank with a total value of €16,453, which constituted 1% of the Group's overall portfolio. The residential sector is not a core sector for the GTC Group, thus GTC decided developed one residential project – Osiedle Konstancja, the sixth and last phase in the complex of high end luxury villas, located on the outskirts of Warsaw. The remaining land is designated for sale.

Property	Location	GTC's share	Number of houses
Osiedle Kontancja, phase VI	Kontancin Jeziorna (outskirts of Warsaw) Poland	100%	17

Item 4.6.3. Assets held for sale

As of 31 December 2017, the Group held assets for sale with a total value of €4,336. Asset held for sale includes Vasas land plot in Budapest.

Item 4.7. Overview of the markets on which the Group operates

This overview was prepared by the Group based on the publicly available information and is focused on the most important markets on which the Group operates.

The following description of the markets is fully based on JLL and Colliers publicly available research and presents its view as the year end. Any changes that were notice post year end are not reflected.

Item 4.7.1. Office market

Poland

Warsaw: The growth in the market here has been robust enough to cause significant improvements in a variety of real estate indicators, and also attract investors, but without running too hot. All that results from the constantly increasing levels of business activity in the capital of Poland combined with developing infrastructure and good quality of living which support that growth. Warsaw is now the undisputed regional leader.

One of the beneficiaries, as the brightest hotspot on the Warsaw office map, is the area near Daszyńskiego roundabout – one of the largest construction sites in Europe and a place every company wants to be in. In a few years it have been completely transformed into an ultra-modern business hub and a symbol of the city's economic strength.

Another trend that's becoming increasingly noticeable in Warsaw is demand for flexible offices. Business centres and co-working spaces are developing rapidly and starting to play an important role in the market. However, Warsaw is facing some challenges, with the biggest of those continuing to be the war for talent. That shines a spotlight on the central areas of Warsaw, as the recruiting advantages of a central location boost both demand and supply there.

Such good market sentiment has resulted in extraordinary demand, which totalled 820,100 sq. m in Warsaw in 2017, i.e. 9% higher than 2016 and almost equal to the record-breaking 2015. The City Centre leads the way in terms of occupier activity, with 208,400 sq. m leased, of which 125,400 sq. m was located in the City Centre West subzone. Mokotów followed closely, with 204,600 sq. m transacted on, and third place was taken by the CBD. Approximately 381,600 sq. m of the total demand came from new deals in existing buildings, with a further 136,900 sq. m being pre-lets. Renewals amounted to 210,100 sq. m and expansions accounted for 91,500 sq. m (up 20% on 2016).

The amount of new supply coming to the market in 2017 was lower than that in 2016, totalling 275,400 sq. m, of which 77% was completed outside of the central areas of Warsaw. The largest openings included: Business Garden 3–7 (54,800 sq. m, Żwirki I Wigury corridor); West Station II (35,000 sq. m, Jerozolimskie corridor); and D48 (23,400 sq. m , Mokotów). The volume of completions is expected to decrease further in 2018 and then to pick up in 2019–2020.

The under-construction volume currently amounts to 750,000 sq. m. It is interesting that 78% of total volume is located in the central areas of Warsaw. This may result in a possible shortage of new space in non-central locations in the mid-term perspective.

The lower completions volume in 2017 and the robust demand last year resulted in a steady decrease in the vacancy rate throughout Warsaw, with that rate now at its lowest since 2013.

Currently 11.7% of space in Warsaw is vacant (which is 2.5 pp lower than Q4 2016). For central areas the rate is 9.1% (6.2 pp lower than in Q4 2016, which shows remarkable absorption of office space), while for non-central Warsaw the figure is 13.2%. This situation is expected to continue in the mid-term perspective.

Prime headline rents remained relatively stable in 2017. A slight correction was seen in Q2 in the upper rental band for the CBD, where rents are currently quoted at EUR 20.5–EUR 23.0 / sq. m / month (down from EUR 20.5–EUR 23.5 / sq. m / month). Prime assets located in the best non-central areas lease for EUR 11.0–EUR 16.0 / sq. m / month.

Regional cities: Poland has been able to stand out as a stable economy and a safe destination for investments by multinational corporations. The office real estate market in Poland's regions continued to experience good times in 2017, with all of the regional cities seeing robust growth along with increasing confidence from international investors. In 2018 we expect to see further strong momentum in the regional office markets of Poland. Given the solid economic situation here companies are continuing to expand, and more and more firms now have Poland on their radar.

Growth in the number of people employed by corporations has led to increased demand for office space, and that has had a direct impact on the office letting market. In 2017 the take-up volume in regional markets reached around 674,600 sq. m and thus surpassed the previous year's volume by more than 15%. Kraków office market continued its strong performance over the year with almost 201,000 sq. m leased (7% higher than the figure for the whole of 2016). Wrocław and the Tri-City registered take-up volumes of 169,500 sq. m and 113,200 sq. m respectively. The figure for Poznań, where demand was led by a 25,500 sq. m pre-let by a confidential tenant in Nowy Rynek B, was more than 22% higher than that for 2016, while Łódź continued to see good growth in 2017 and constant inflow of new investors.

Approximately 461,000 sq. m entered the market in 2017 (6% less than the amount in 2016 but 25% more than in 2015). Of that space 135,000 sq. m (i.e. 29%) was still available on the date of its completion. Looking ahead to 2018, 390,700 sq. m is being developed on speculative basis. Remaining 31% of the new supply expected for 2018 is already pre-let.

The major regional markets have a total of 1.1 million sq. m under construction and due for completion from 2018 onwards, with the bulk of that total scheduled for completion this year. Activity is focused mainly on Kraków, Wrocław and the Tri-City, which together account for 71% of all under-construction space in the eight regional cities.

After rising in the third quarter of 2017, the overall vacancy rate for the eight regional cities fell in Q4 and now stands at 9.9%. Five cities saw drops in their individual rates (–2.8 pp in Katowice, –2.9 pp in the Tri-City, –3.1 pp in Wrocław, –4.7 pp in Szczecin and a spectacular –4.9 pp in Poznań; y-o-y change). The other cities saw minor increases in their vacancy levels. Łódź lost its title of the city with the lowest vacancy rate, being replaced by the Tri-City.

As future demand will continue to be high, the amount of vacant space is expected to stabilise or even fall further in the mid-term perspective.

The situation with regard to rents remains relatively stable across Poland. Although there have been some minor corrections q-o-q, the market has not seen any significant increases or decreases.

Currently the highest rents are quoted in Kraków (EUR 13.5 to EUR 14.6 / sq. m / month) and Wrocław (EUR 13.9 to EUR 14.5 / sq. m / month), while the lowest are found in Lublin (EUR 10.5 to EUR 11.5 / sq. m / month) and Szczecin (EUR 11.5 to EUR 13 / sq. m / month).

Bucharest

Last year saw the delivery of 123,000 sq. m of new modern office spaces, taking the total stock to nearly 2.3 mil. sq. m. This is lower than we had anticipated and also below 2016's 230,000 sq. m deliveries, though the latter coincided with the best post-crisis pace and was double the average seen in the post-crisis period. Some delays were recorded due to both an overstretched construction segment and some developers seemingly pushing back their projects as they seek to improve the pre-lease percentage before the actual delivery. This coincides with the tight overall labour market, an issue we have touched upon in the macro section. The trend we highlighted last year continues to hold water, with half of the total expected deliveries coming from just two projects (the first phases for Globalworth's Campus and Forte Partner's The Bridge); Vastint also delivered over 30,000 sq. m in two new buildings in its Timpuri Noi Square. Underpinning the newer hotspot in Centre-West, the two projects delivered here in 2017 accounted for over one third of total, while Timpuri Noi and Dimitrie Pompeiu each had a share of just under a quarter of total.

Leasing activity cooled a bit in 2017, with total take-up for class A office buildings at just over 320,000 sq. m, down by some 10% versus a year earlier, though this was still the second best post-crisis result, after 2016 of course. Net take-up for class A buildings actually accelerated last year, amounting to over 150,000 sq. m in new demand or relocations from non-competitive stock, an increase of close to 10% and possibly the best post-crisis result.

The IT&C segment was again the single biggest driver, generating over 40% of total leasing activity: 140,000 sq. m, an impressive growth of over 80% compared to 2016. The outsourcing segment was also robust, so it is still safe to assume that IT&C plus BPO/SSC operations for companies in other sectors account for at least half of the activity in the office market.

Overall, market conditions in Bucharest are fairly neutral, with vacancy at just under 10% at the end of last year.

Still, developers have acquired a good land bank for future projects by 2020, that are set to yield well over half a million sq. m if constructed. Otherwise, the same mantras are still true: good access to the public transport infrastructure, higher quality buildings, an interesting mix of amenities. With companies having ever more difficulties in maintaining good attrition rates and in attracting new talent, the workplace itself has become a differentiating factor. As such, given the heavier delivery calendar announced for the next couple of years, we consider that higher tier properties might see less downward pressures on rents than lower tier ones, as some companies might be willing to shell out a bit more money to keep their employees happy.

Rents were broadly stable throughout 2017 and we expect this trend to continue in 2018. Still, as vacancies start climbing a bit and planned deliveries remain significant, we could start seeing some downward pressures on rents towards the end of the year (it could also mean showing similar headline rents and more flexibility regarding incentives for tenants).

Budapest

Similar to 2016, the leasing activity remained strong in 2017 with an annual net-take up of 278,000 sq. m. While the total leasing activity, including the renewals and owner occupier deals, has almost reached 475,000 sq. m. The net absorption was 133,000 sq. m, which shows a slight setback compared with 2016, when it was 148,000 sq. m. As a result, the trend of decreasing vacancy rates continued throughout 2017, however at a less intense rate. The total market vacancy rate reached a historically low level of 7.5% by Q4 2017, which shows a noticeable decrease since the end of 2016, when it was 9.5%. Among the large international tenants, Colliers still sees the dominance of SSC/BPO related occupiers. The largest deals during the year were closed by tenants active in the IT, financial sector and by the state related occupiers.

By the end of 2017, the total office stock in Budapest exceeded 3.4 million sq. m, out of which 2.6 million sq. m is the speculative stock. The amount of new space handed over in 2017 was almost 80,000 sq. m, which was a bit below last year. Total leasing activity, excluding the owner occupier deals, reached 410,000 sq. m that is approximately 10% lower than that of last year. The distribution of the deals was similar to last year, however, this year the ratio of new leases become the highest (38%), followed by the renewals (33%) that had the highest share in the previous two years. Váci Corridor, the largest submarket, still remained the most sought after in Budapest both in terms of leasing and development activity. Pre-lease activity for new projects become a more significant in 2017 with 70,000 sq. m. As a result of the stronger pre-lease activity, by the end of the Q4, already more than 50% of the pipeline was already secured by tenants.

We still see the trend of consolidation and optimization by large international tenants, hence they are moving to more efficient new buildings, where they require smaller area than at their current locations. Older buildings vacated by large tenants may still be able lease up their space at stable or mildly increasing rents due to the tightness of the market, but this The market is in a growing phase since 2012, which has accelerated in 2014. The gradually decreasing vacancy rate is the best evidence for that, with declining to 7.5% by 2017 since its peak in 2012, when it stood at 21%.

The total pipeline until the end of 2019 is approximately 408,000 sq. m, 65% of which is expected to be handed over until the end of 2018. The largest share, more than one third, will be on Váci Corriodor, followed by Central Pest and South Buda.

Developers are of the view that the rising construction costs and overall low vacancy level, will lead to further rental growth in brand new office developments, reaching and average EUR 14-15/sq m/month headline rent. According to their estimation without further rental growth the new developments may become financially unfeasible. Investors have adopted a more cautious approach, more closely examining the sustainability of such conditions, especially considering a pipeline volume unseen since the financial crisis.

Belgrade

During the last quarter of the year, new supply slowed down and there were no new office buildings delivered to the market. During the year, the overall stock increased by 6%, which is slightly lower than the recorded activity in 2016.

Positive market trends, including the growing construction activity, are expected to continue in the upcoming period. The majority of construction activity will remain focused in Belgrade, yet growing interest from developers for major secondary cities has been noted as well.

Net take up has been continually increasing over the previous quarters, and the majority of deals included companies relocating and expanding on the market, highlighting the market recovery. Traditionally, majority of transactions occurred in New Belgrade, over 90%. During the entire year, the most active sectors on the market have been IT, professional services and consumer goods. It has been noted that in the recent quarters the average deal size has been growing and in 2017 was above 800 sq. m.

In the last quarter of 2017, the overall vacancy remained relatively stable at 5.4%. Additionally, the vacancy rate in Class A office buildings noted slight drop and stood at 4.9%, while in Class B office buildings it noted slight increase and stood at 5.9%.

In late 2017, prime office rents have witnessed a slight drop and as of the last quarter of the year range from EUR 15 to EUR 16.5 sq. m / month. Rental levels for Class B office premises in New Belgrade remain stable, ranging between EUR 10 and EUR 13 sq. m / month and EUR 10 to EUR 12 sq. m / month in the city centre. Rental levels for office premises in the wider New Belgrade area reached up to EUR11 sq. m / month, while modern office premises in the city centre reached EUR 16 sq. m / month. Landlords continue to offer incentives including rent free periods, fit-out contributions and additional free parking spaces.

Zagreb

At the end of 2017 total office supply in Zagreb amounted to approx.1.31 million sq. m. A class segment accounts for 44% while B class accounts for 56% in the total supply. Second-tier cities with significant office supply in Croatia are Split and Rijeka.

New major office schemes delivered to the market in 2017 totalled 15,600 sq. m.

Demand for office spaces rose further in 2017. Demand was strongest for A class segment. Gross take-up in Zagreb amounted to 30,300 sq. m in 2017, a 50% drop in comparison to 2016 (59,800 m²) as a result of limited supply. The demand in Zagreb was mainly driven by Professional Services, ICT sector, and Pharmaceutical companies while the majority of demand for office spaces in the coastal cities comes from companies in tourism. Most sought-after locations in 2017 were strict city center and central business district. Colliers expects that take-up will remain solid in 2018.

Vacancy rate in Zagreb office market continued to decrease throughout 2017 and currently stands at around 4.50% (300 basis points decrease yoy). Such low vacancy rate was last recorded in 2008. Further drop in vacancy rate was driven by the elevated demand and limited new developments. As a consequence of slow delivery of new supply and solid demand vacancy rate is expected to further decrease in 2018.

The prime headline rent in Zagreb has been stable in the last few years and currently ranges from EUR 14 to EUR 15/sq. m/month. Average rent for A class also remained stable, despite drop in vacancy rate, at EUR12/sq. m/month. The secondary rent across the city ranges from EUR 8 to EUR 10/sq. m/month. Rents are expected to slightly increase. Typical incentives that the landlords are ready to offer to new tenants are fitout contribution and/or rent free period for a typical lease length of 3 to 5 years.

Currently there are 3 projects under construction in Zagreb Business district East ("Radnička") which will add 32,200 sq. m of A class office space to Zagreb's office market in 2018.

GTC group is expected to start development of Matrix Business Park in Zagreb Business district East (on Slavonska avenue) in 2018. Matrix project should comprise of two office buildings in the first phase, totalling approx. 21,000 sq. m of lettable area. According to the developer the second phase additional 3 to 5 office buildings are planned to be added to this business park.

Sofia

Following two years of moderate activity, 2017 has noted significant growth with various new office schemes delivered in Sofia. The city's office stock has grown over the past decade and has highlighted the differences among the city areas. Several districts have evolved including the CBD, broader centre and the city outskirts.

In 2017, the overall stock increased by 6% on an annual level. Construction activity is rising in the capital and over the next few years, we expect to see the office pipeline develop with both new projects and those that were previously put on hold.

Bulgaria has been recognised as an important outsourcing and business services destination, with various companies expanding and entering the market. The share of the services sector has been growing steadily in GDP over recent years, underpinned by the skilled labour, active interaction between business, education and the state, and expanding packages encouraging foreign investment. In addition, outsourced services are developing in Sofia. Therefore, the most active sectors on the market have been IT and BPO.

During the year, the majority of companies were relocating to newer modern premises and expanding. Furthermore, pre-leases accounted for a significant portion of the overall transaction volume. The vacancy rate has witnessed a slight drop during the year and in the second half of 2017 remained stable at 10%.

Significant demand was directed toward Tsarigradsko shosse and modern office buildings in the CBD, where the vacancy level in the best performing buildings was around 5%. Higher vacancy rates are typically noted in peripheral areas, including secondary residential locations and the vicinity of the ring road.

During 2017, prime office rents in Sofia remained stable at EUR 14 sq. m/month. Prior to this, a slight increase was noted in 2016, due to low availability of offices in high quality schemes in prime locations. Rental levels in the broader centre were stable from the beginning of the year ranging from EUR 10 to EUR 12 sq. m/month, while in peripheral areas rents can be low as EUR 6 sq. m/month.

Item 4.7.2. Retail market

Poland

At the end of Q4 2017,the modern retail stock in the Warsaw Agglomeration totalled 1.76 million sq. m with shopping centres representing the largest share (70%). In terms of shopping centre density, Warsaw, with 472 sq. m/ 1,000 residents, ranks the third lowest amongst Polish major agglomerations, only slightly above Szczecin and the Upper Silesia agglomerations. Wrocław and Poznań lead the rankings with 729 and 727 sq. m / 1,000 residents respectively. The purchasing power of the Warsaw agglomeration which reaches EUR 9,867 per capita / year is the highest in the country (exceeding the national average of EUR 6,523 by 51%). Approximately 198,100 sq. m of GLA in all retail formats are now under construction with completion scheduled for 2018-2019.

Belgrade

2017 has witnessed the highest levels of development activity in recent years, both in the capital Belgrade and in the secondary cities, with five retail parks and two shopping centres delivered.

Investor confidence is expected to remain high in the following years and several schemes are expected to be completed throughout the country. The majority of activity will remain in the capital, however other larger secondary cities will note higher activity as well.

Besides Belgrade, investments are expected to surge in various secondary cities as well.

In addition, the construction of new retail parks throughout the country continues, with several announced for completion in the upcoming months.

During the year, the opening of new shopping centres has brought various new brands to the market. The majority of new comers have opened their first store in Rajićeva, such as Lego, Armani Exchange, The Athlete's Foot and Calvin Klein Jeans.

During the last quarter of 2017, average rents in prime shopping centres in Belgrade were higher ranging from EUR 27 to EUR 29 sq. m / month. Retail units within prime shopping centres, sized between 100 and 200 sq. m, remained at EUR 60 sq. m / month, while rents for such units on the high street stood at EUR 80 sq. m / month.

Zagreb

The main drivers of the retail sector in the country continue to be economic growth, high consumer spending and rising real wages. Zagreb and Split, two biggest cities of Croatia, have the most developed (and saturated) retail supply. Development opportunities can still be found in secondary and tertiary cities where small retail parks are the best fit considering the small catchment area.

Zagreb's rapid tourism growth has resulted in increased interest for high street units among F&B operators which in turn bring more international chains and new gastronomy concepts to the market.

In 2017 the demand continued to be driven by international brands focusing on Zagreb and coastal cities. The tenant demand is up for prime shopping centers. High street locations are also seeing an increased interest from international brands.

Market newcomers in 2017 include PEPCO, TEDi and Subway. European chain of discount shops PEPCO has opened 16 stores across Croatia and plans further expansion in the coming years. German TEDi retail chain opened first two stores in Supernova Buzin and Supernova Garden Mall in Zagreb. American fast food restaurant franchise Subway made a return to the Croatian market after 8 years.

Overall market average vacancy rate in shopping centers in Zagreb amounted to 14% in H2 2017. Prime shopping centers have vacancy rate below 4%. Weighted average rent in prime shopping malls in Zagreb currently stands around EUR 19/sq. m/month. We expect the rents to slightly increase in 2018 in shopping centers.
High street rents range from EUR 30 to EUR 120 per sq. m depending on micro location, surface and visibility / width of the shop window front.

Item 4.7.3. Investment market

Poland

In Q4 2017, the total transacted volume in Poland amounted to ca. EUR 2.5 billion, which was 34% higher than the Q4 figure of 2016. The sector split comprised ca. EUR 841million in offices, ca. EUR 813million in retail, EUR 823million in warehousing, with the reminder falling into hotel and mixed investment transactions. Themarket is illustrating a full spectrum of transactions from long-leased single asset, through to complex portfolios, IPO's and JV share structures. This trend is set to continue in 2018.

2017 saw over EUR 2.07 billion of deals completed in the retail segment, compared to EUR 1.96 billion in 2016. Some major transactions expected to close at the end of 2017 moved to early 2018, which again, signifies a strong start to the year ahead. The major retail transactions completed in Q4 2017 included the sale of Magnolia Park in Wrocław with approximately 100,000 sq. m GLA by Blackstone to Union Investment for price in the region of EUR 380 million. NEPI Rockcastle bought Alfa in Białystok (37,000 sq. m GLA) from JWK for EUR 92.3 million. The Factory Outlet in Ursus (Warsaw) with 19,600 sq. m of GLA was sold by IRUS Fund toTH Real Estate / Neinver for EUR 79.7million. It must be highlighted that two notable retail investment transactions completed just after year end in the first days of January 2018. The portfolio of 28 established retail assets totalling 700,000 sq. m GLA and consisting of 9 M1 shopping centres, 12 stand-alone hypermarkets, 4 retail parks and 3 DIY locations was acquired by Chariot Top BV, a company managed by Griffin Real Estate and owned by Pimco, Oaktree and Redefine, for ca EUR 1.0 billion. 4 M1 shopping centres were then immediately sold to EPP with 8 more assets scheduled for sale until mid-2020. All these transactions confirm that international investors remain very active on the Polish retail investment market. The prime yields achievable for best-in-class, dominant, major shopping centres in Poland currently stand at level of 4.9%, while prime retail parks are expected to trade at approximately 7.0%.

Office volumes in 2017 for Poland amounted to EUR 1.58 billion, with a record volume of transactions in the regional cities, amounting to EUR 968 million. In Q4 2017, we witnessed two large portfolio transactions: a ca. EUR 134 million portfolio bought by Goldman Sachs with Cromwell from Savills Investment Management comprising of seven office buildings. Prime yields in Warsaw remain stable at a level of 5.00%-5.25%. In Kraków, UBM sold Kotlarska 11 building to IAD Investment for ca. EUR 30 million and DOT Office was sold to Golden Star. Przystanek mBank in Łódź was sold for ca. EUR 60 million to LCN. Prime regional city yields are at 6.00% for 5 year leases, with longer leased properties trading sub 6.00%. Year-end volumes for office transactions in Poland stood at over EUR 1.58 billion, with very strong pipeline for 2018.

Bucharest

The 2017 property investment volume for Romania is estimated at over EUR 960 million, a value ca. 8% higher than the one registered in 2016 (EUR 890million). The number of transactions increased, with the average deal size standing at approximately EUR 28.5 million. Bucharest accounted for approximately 36% of the total investment volume, less than in 2016, showing that liquidity in secondary cities has improved. Market volumes were dominated by retail transactions (43%), while industrial, office and hotels accounted for over 22%, 17% and 18% respectively.

The largest transaction of the year was the acquisition of 50% of Iulius Group's retail and office portfolio by South African group Atterbury. This is the first acquisition of the fund in Romania, buying shares in one of the largest retail owners in the country.

The most notable office transaction was the acquisition by Immochan of Coresi Business Park in Brasov from Ascenta Management. This marked the entrance on the office market of the investor/developer which was previously focused on retail projects.

The macro-economic forecast for Romania continues to be positive, despite some recent concerns. The country was the EU's top performer in the first nine months of 2017 (with GDP growth estimated at 7%) and is expected to hold this position in 2018 as well, with GDP increase forecast at 5.5%. On the financing side, terms and conditions are getting closer to what can be expected in the core CEE markets. Consequently, sentiment is strong, with a total volume for 2018 estimated to break the EUR 1 billion mark.

Budapest

In 2017 the total investment volume of commercial real estate reached EUR 1.83 billion that is the highest activity in the last ten years and the second highest in Hungary, ever. Investors activity grew by 10% from the previous year. Continuing demand by domestic funds, new market entrants and favourable financing terms as well as the drop of corporate income tax rate boosted investment activity. Colliers registered deals of EUR 32 million per transaction which is a 28% improvement from the previous year. Budapest has been experiencing a strong capital value appreciation thanks to recent yield compression and rental growth. Pricing of core opportunities rushed stronger in Budapest than in Prague or Warsaw.

Similarly to last years, domestic investors were the most activity purchasers representing 35% of all deals by volume and nearly 50% of the deal count. By source of capital, Czech and US investors gained an 11% and 9% market share, respectively. Nepi Rockcastle, one of the regionally dominant South African investors, entered the market with the acquisition of Arena Plaza, a deal that alone accounted for 16% of the volume in 2017. Beside Rockcastle, the most remarkable new market entrants were US investors, such as Goldman Sachs or Starwood Capital. Additionally, the China Investment Corp, a large sovereign wealth fund of the Government of China, entered to the market through the acquisition of the Hungarian Logicor industrial/logistics portfolio.

During the course of 2017, portfolio deals and large individual office and retail transactions were the key catalyst of the second highest investment activity. In 2017 Colliers registered 11 transactions beyond the EUR 50 million ticket.

The trend of shortening of transaction periods is still apparent. Currently, deals are typically closed within 6 months, while in the last few years the average had been between 6 to 9 months and sometimes even 12 months. This pattern is in the interest of buyers, as market conditions are improving and quick reactions can lead to significant competitive advantages. Due to the increasing investor interest, the market is characterised by strengthening position of sellers, especially on prime investment products. Prime yields are on decline by 0.50% in the office and industrial sectors while prime retail opportunities are 25 bps more expensive than a year ago. The typical prime office yield at the end of 2017 stood at 6.00% equally to prime retail (shopping centre) yields whilst top quality industrial/logistics properties traded at 7.75%.

Colliers anticipates a strong start of 2018, as they already recorded 11 deals with a total investment volume of approximately EUR 350-400 million, that were postponed to Q1 2018. As a result of less investment opportunity in high-quality products and evidenced rental growth, further compression in yields is expected during 2018, however at a less intense rate than in 2017. The consensus on the market has already showed that prime office yields have already compressed at the level of 6.00% or even below (e.g. Eiffel Palace, Váci 1 deals), and we can expect several transactions to take place at this yield level within the first half of 2018, even for less attractive assets. We expect that 2018 will remain active year with portfolio deals and value-add opportunities similarly to previous year especially in the office and industrial segment. However, we do not expect major shopping centres to trade, as was the case in 2017. Due to a serious shortage in product in the office sector, Colliers anticipates a higher share of forward-sale deals in 2018, with high pre-lease rates. The total annual volume in 2018 is expected to remain at a similarly high level as it was in the previous two years.

Belgrade

Throughout 2017, the Serbian real estate market remained active. This has been supported with continual government reforms, improving market fundamentals as well as the high development activity noted in the previous 12 months. The existing developers on the market continued to expand their portfolios, yet new investors have been active as well.

In the second half of the year, one of Belgrade's modern office buildings, Belgrade Business Centre, was acquired by GTC. The building is located in New Belgrade which has grown into the city's Central Business District. In addition, well known local investor MPC Properties continued the expansion of its portfolio and purchased one of the modern shopping centres in the capital, namely Mercator Centre.

Zagreb

The appeal of the Croatian market was confirmed by numerous transactions throughout 2017. The majority of transactions involved retail assets, however a few transactions in both the office and industrial segment were also noted, making Croatia one of the most active markets in the SEE region during the past year.

Retail parks and shopping centers were subject to one of the largest expansions on the market by Supernova, which purchased retail centres in Koprivnica, Sisakand Požega-in project stage, as well as Garden Mall, Cvjetni, Branimir and Kaptol Centar shopping centres in Zagreb, making it the leading company in Croatia in terms of retail space. In addition, King Cross shopping centre in Zagreb was purchased by Spar European Shopping Centers. Within the office segment, M7 Real Estate acquired Mani Business Center, spread over 13,900 sq. m, located in the Buzinarea of Zagreb while the industrial segment was marked by the acquisition of Magma logistics centre in Jastrebarsko.

Sofia

Throughout 2017, investors kept their focus on the retail segment, with modern shopping centres being purchased in Sofia and secondary cities. However, several office buildings were sold in the capital including Kambanite Business centre, former Telephone palace, Unicredit bank and several smaller scale schemes. In addition, Serdika shopping centre and offices were acquired for EUR 207.4 by NEPI Rockastle.

Item 4.8 Information on the Company's policy on sponsorship, charity and other similar activities.

The Group actively pursue the policies adopted by them which envisage supporting local communities that reside within or in close proximity of the areas where the Group's investments are situated. Such support involves:

- Enhancement of local infrastructure, including road and traffic infrastructure. The infrastructure created in connection with or for the purposes of the developments constructed is handed over to the local self-government free of charge to be used by all residents. Moreover, prior to the development of the Group's projects, public green areas (such as squares and parks) are placed on undeveloped plots or plots which will surround future developments following their completion by the Group.
- Sponsoring local initiatives. The Group participates in and supports local initiatives (such as the "Bieg przez Most" run, organized children's choirs concerts, science picnic, volleyball tournament- Jurajska Open 40+, WWF foundation's education stand).
- Charity. GTC made a donation to *The Friends of Children's Hospitals of Warsaw* Foundation. The donation was used to acquire special medical equipment for the children's oncological ward of the Hospital of Medical University in Warsaw.
- "Embracing environmental certification. Out of concern for the environment, the investments of the Company and the Group are fully compliant with LEED guidelines.

Item 5. Operating and financial review

Item 5.1. General factors affecting operating and financial results

General factors affecting operating and financial results

The key factors affecting the Group's financial and operating results are discussed below. The Management believes that the following factors and important market trends have significantly affected the Group's results of operations since the end of period covered by the latest published audited financial statements, and the Group expects that such factors and trends will continue to have a significant impact on the Group's results of operations in the future.

Economic conditions in CEE and SEE

The Group's business results have been affected by the global financial crisis, which started in 2008/2009. The global crisis on the financial markets impacted the condition of many financial institutions, and governments were often forced to intervene on the capital markets on an unprecedented scale. Such turbulence resulted in businesses having restricted access to bank financing, an increase in interest rates charged on bank loans and a decrease in consumer spending with many tenants making requests for temporary or permanent rent reduction or downsizing of rental space. All these factors impacted the real estate market as well as resulted in a decrease in the value of real estate.

The crisis experienced by the financial markets slowed down the general economy in the countries, where the Group operates. The economic downturn in those countries resulted in reduced demand for property, growth of vacancy rates, and increased competition in the real estate market, which adversely affected the Group's ability to sell or let its completed projects at their expected yields and rates of return.

The reduced demand for property that, on the one hand, resulted in a drop in sales dynamics, and, on the other, an increase in vacancy rates and lower rent revenues from leased space, significantly impacted the results of operations of the Group. Specifically, the Group was forced to change some of its investment plans, for example numerous projects in Bulgaria, Romania and Croatia, as those projects did not meet the initially assumed returns targets. Additionally, the Group was not able to develop numerous plans in the countries where it operates.

Real estate market in CEE and SEE

The Group derives the majority of its revenue from operations from rental activities, including rental and service revenue. For the year ended 31 December 2017 and for the year ended 31 December 2016, the Group derived 71% and 72% of its revenues from operations as rental revenue, which greatly depends on the rental rates per sq. m and occupancy rates. The amount the Group can charge for rent largely depends on the property's location and condition and is influenced by local market trends and the state of local economies. The Group's revenue from rent is particularly affected by the delivery of new rent spaces, changes in vacancy rates and the Group's ability to implement rent increases. Rental income is also dependent upon the time of completion of the Group's development projects as well as on its ability to let such completed properties at favorable rent levels. Moreover, for the year ended 31 December 2017 and for the year ended 31 December 2016, the Group derived 24% and 23% of its revenues from operations as service revenue, which reflects certain costs the Group passes on to its tenants.

The vast majority of the Group's lease agreements are concluded in Euro and include a clause that provides for the full indexation of the rent linked to the European Index of Consumer Prices. When a lease is concluded in another currency, it is typically linked to the consumer price index of the relevant country of the currency.

To a certain extent, the Group's operational results are influenced by its ability to sell residential units, which for the year ended 31 December 2017 and for the year ended 31 December 2016, amounted for 5% and 5% of the Group's total revenues, respectively. The supply of new apartments in the different markets in which the Group operates and the demand on such markets affect apartment prices. The demand for apartments is further impacted by fluctuations in interest rates, the availability of credit and the mortgage market in general. For example, the Group's residential revenues decreased steadily over the last few years due to the slowdown in the sale of residential properties coupled with an increase in discounts which had to be granted to purchasers of the Group's apartments in order to facilitate sales.

Real estate valuation

The Group's results of operations depend heavily on the fluctuation of the value of assets on the property markets. The Group revalues its investment properties at least twice per year. Any change in fair value of investment property is thereafter recognized as a gain or loss in the income statement.

The following three significant factors influence the valuation of the Group's properties: (i) the cash flow arising from operational performance, (ii) the expected rental rates and (iii) the capitalization rates that result from the interest rates in the market and the risk premiums applied to the Group's business.

The cash flow arising from operational performance is primarily determined by current gross rental income per square meter, vacancy rate trends, total portfolio size, maintenance and administrative expenses, and operating expenses. Expected rental values are determined predominantly by expected development of the macroeconomic indicators as GDP growth, disposable income, etc. as well as micro conditions such as new developments in the immediate neighborhood, competition, etc. Capitalization rates are influenced by prevailing interest rates and risk premium. In the absence of other changes when capitalization rates increase, market value decreases and vice versa. Small changes in one or some of these factors can have a considerable effect on the fair value of the Group's investment properties and on the results of its operations.

Moreover, the valuation of the Group's landbank additionally depends on among others the building rights and the expected timing of the projects. The value of landbank which is assessed using a comparative method is determined by referring to the market prices applied in transactions relating to similar properties.

The Group recognized net profit from revaluation and impairment of assets and residential projects of €148,562 in the year ended 31 December 2017 and €84,551 in the year ended 31 December 2016.

Impact of interest rate movements

Substantially all of the loans of the Group have a variable interest rate, mainly connected to EURIBOR. The bonds issued by the Company in 2012 and 2014 are denominated in PLN and bear interest connected to WIBOR. Increases in interest rates generally increase the Group's financing costs. As of 31 December 2017 and 31 December 2016 approximately 90% and 70% of the Group's loans were hedged or partially hedged. For example, a 50bp change in Euribor rate would lead to €1,698 change in profit (loss) before tax. In addition, in an economic environment in which availability of financing is not scarce, demand for investment properties generally tends to increase when interest rates are low, which can lead to higher valuations of the Group's existing investment portfolio. Conversely, increased interest rates generally adversely affect the valuation of the Group's properties, which can result in recognition of impairment that could negatively affect the Group's income.

Historically, EURIBOR rates have demonstrated significant volatility, changing from 1.343% as of 2 January 2012, through 0.188% as of 2 January 2013, to 0.280% as of 3 January 2014, 0.076% as of 2 January 2015 and – 0.1320% as of 4 January 2016, -0.3180% as of 2 January 2017, -0.328% as of 2 January 2018 (EURIBOR for three-month deposits).

Impact of foreign exchange rate movements

For the 12-month period ended 31 December 2017 and for the 12-month period ended 31 December 2016 a vast majority of the Group's revenues and costs were incurred or derived in euro. Nonetheless, the exchange rates against euro of the local currencies of the countries in which the Group operates are an important factor as the credit facilities that are obtained may be denominated in either euro or local currencies.

The Group reports its financial statements in euro, its operations, however, are based locally in Poland, Romania, Hungary, Croatia, Serbia, Bulgaria, and other countries. The Group receives the majority of its revenue from rent denominated in euro, however, it receives a certain portion of its income (including the proceeds from the sales of residential real estate) and incurs most of its costs (including the vast majority of its selling expenses and administrative expenses) in local currencies, including the Polish zloty, Bulgarian leva, Czech korunas, Croatian cunas, Hungarian forints, Romanian lei and Serbian dinars. In particular, the significant portion of the financial costs incurred by the Group includes: (i) the interest on the bonds issued by the Group in Polish zloty and (ii) the interest on the loan taken by the Group in Hungarian forints. The exchange rates between local currencies and euro have historically fluctuated.

The income tax expense (both actual and deferred) in the jurisdictions in which the Group conducts its operations is incurred in such local currencies. Consequently, such income tax expense was and may continue to be materially affected by foreign exchange rate movements.

Accordingly, the foreign exchange rate movements have a material impact on the Group's operations and financial results.

Availability of financing

In the CEE and SEE markets, real estate development companies, including the companies of the Group, usually finance their real estate projects with proceeds from bank loans, loans extended by their holding companies or the issuance of debt securities. The availability and cost of procuring financing are of material importance to the implementation of the Group's projects and for the Group's development prospects, as well as its ability to repay existing debt. Finally, the availability and cost of financing may impact the Group's development dynamics and the Group's net profit.

In the past, the principal sources of financing for the Group's core business included, apart from proceeds from asset disposals, bank loans and proceeds from bonds issued by the Company.

Item 5.2. Specific factors affecting financial and operating results

In March 2017, the Group completed the third building of the FortyOne office complex in Belgrade.

On 4 May 2017, the Group sold Galleria Burgas and Galleria Stara Zagora in Bulgaria in line with its strategy to focus its investment on Poland and three capital cities in CEE and SEE region.

In the first quarter of 2017, the Group started Green Heart office project in Belgrade. Complex will include two existing buildings (GTC Square) which will have massive renovation. Three new building will offer 25,500 sq. m of premium office space. The total leasable area of complex will be 46,000 sq. m.

In May 2017, the Company's shareholders adopted a resolution regarding a distribution of dividend in the amount of PLN 124,258 (€29,500) and allowing the Company's shareholders to elect to receive the dividend in the form of newly issued shares or in cash depending what shareholders prefer. As a result in June 2017, the Company issued 10,087,026 series L Shares to some of the Company's shareholders €21,400 and paid a dividend in the amount of €8,100 to remaining shareholders.

In May 2017, the Group acquired a subsidiary, which holds a land plot in Budapest, Hungary (Kompakt), for a total amount of €12,500. The Group intends to build an office building on the plot.

In June 2017, the Group acquired a land plot in Bucharest, Romania (Rose Garden Park), for a total amount of €10,525. The Group intends to build an office building on the plot.

In July 2017, the group acquired Cascade Office Building, an office building in Bucharest, Romania, for a total amount of €3,300 (net of liabilities). The building offers 4,200 sq. m of premium office space.

In August 2017, the Group acquired a land plot in Sofia, Bulgaria (Advance Business Park II), for a total amount of €6,200. The Group intends to build an office building on the plot.

In September 2017, the group acquired Belgrade Business Center in Serbia for a total amount of €36,800. The amount of €34,800 has been paid. The remaining €2,000 will be paid subject to the seller fulfilling certain conditions.

In September 2017, the Group completed Galeria Północna, shopping mall in Warsaw, Poland.

In December 2017, the Group has completed Artico office building in Warsaw.

In December 2017, the Group refinanced Avenue Mall shopping centre. The total loan amounts to €50,000. The proceeds from refinance received in January 2018.

In December 2017, the Group refinanced Galeria Północna shopping centre. The total loan amounts to €200,000.

In December 2017, the Group acquired a land plot in Zagreb, Croatia (Matrix future phases) for a total amount of €12,300. The Group intends to build office buildings on the plot.

In 2017, the Company issued 3-year Euro denominated bonds, listed on WSE and three year Schuldschein loan in in the total amount of €78,604.

Item 5.3.Presentation of differences between achieved financial results and published forecasts

The Group did not present forecasts for 2017.

Item 5. 4. Statement of financial position

Item 5.4.1. Key items of the statement of financial position

Investment property

Investment properties that are owned by the Group comprise office and commercial space, including property under construction. Investment property can be split up into: (i) completed investment property; (ii) investment property under construction; and (iii) commercial landplots.

Residential landbank

The Group classifies its residential inventory as current or non-current assets based on their development stage within the business operating cycle. The normal operating cycle in most cases falls within a period of one to five years. The Group classifies residential inventory the development of which is planned to be commenced at least one year after the balance sheet date as residential landbank, which is part of its non-current assets.

Investment in associates and joint ventures

Investment in associates and joint ventures is accounted for pursuant to the equity method. Such investment is carried in the statement of financial position at cost plus post-acquisition changes in the Group's share of the net assets of the associate and joint ventures.

Assets held for sale

Assets held for sale comprise office or retail space and land plots that are designated for sale.

Inventory

Inventory relates to residential projects under construction and is stated at the lower of cost and net realisable value. Expenditures relating to the construction of a project are included in inventory.

The Group classifies its residential inventory as current or non-current assets based on their development stage within the business operating cycle. The normal operating cycle in most cases falls within a period of one to five years. Residential projects which are active are classified as current inventory.

Short-term deposits

Short-term and long-term deposits are restricted and can be used only for certain operating activities as determined by underlying contractual undertakings.

Derivatives

Derivatives include hedge instruments held by the Group that mitigate the risk of interest and currency rates fluctuations. In relation to the instruments qualified as cash flow hedges, the portion of gain or loss on the hedging instrument that is determined to be an effective hedge is recognized directly in other comprehensive income and the ineffective portion (if any) is recognized in net profit or loss. The classification of hedges in the statement of financial position depends on their maturity. For derivatives that do not qualify for hedge accounting, any gain or losses arising from changes in fair value are recorded directly in net profit and loss for the year. The fair value of interest rate swap contracts is determined by calculating the present value of cash flows of each leg of the transaction, taking into account several risk statistics.

Item 5.4.2. Financial position as of 31 December 2017 compared to 31 December 2016

Total assets increased by €343,119 (19%) to €2,182,609 as of 31 December 2017. This increase was mainly due to (i) development activity: primarily Galeria Północna, FortyOne III, Ada Mall, Artico, White House, Green Heart, (ii) acquisition of two office buildings in Bucharest and Belgrade and land plots in Bucharest, Budapest, Zagreb and Sofia; and (iii), revaluation of investment property.

Assets

The value of investment property and commercial landbank increased by €332,166 (21%) to €1,936,841 as of 31 December 2017 from €1,604,675 as of 31 December 2016, due to an investment of €253,041 mainly into completion of Galeria Północna, Fortyone III and Artico; assets under construction White House, Green Heart and Ada Mall, acquisition of two office buildings and land plots in Budapest and Bucharest, as well as revaluation gain mainly attributed to assets completed during year and those under construction. The increase was partially offset by sale of Galleria Burags and Galleria Stara Zagora.

The value of residential landbank and inventory decreased by €2,663 (14%) to €16,453 as of 31 December 2017 from €19,116 as of 31 December 2016, mainly due to disposal of residential landbank.

The value of VAT and other tax receivable decreased by €10,771 to €6,618 as of 31 December 2017 from 17,389 as of 31 December 2016, mainly as a result of received VAT refund related to asset acquisitions.

Short term deposits increased by €24,831 to €52,756 as of 31 December 2017 from 27,925 as of 31 December 2016, mainly as a result of funds allocated for final settlement of payments related to completion of Galeria Północna.

The value of cash and cash equivalents decreased by €1,066 (1%) to €148,746 as of 31 December 2017 from €149,812 as of 31 December 2016.

Liabilities

The value of loans and bonds increased by €141,152 (16%) to €1,034,084 as of 31 December 2017 from €892,933 as of 31 December 2016. This increase comes mainly from issue of new corporate bonds and loan in amount of €78,604 as well as a drawdown of €151,912 under Galeria Północna loan facility. The increase was partially offset by full repayment of Galleria Stara Zagora and Galleria Burgas bank loans in the amount of €27,172 following the sale of these projects and partial repayment of bonds in the amount of €46,283 as well as standard amortization of loans.

The value of provision for deferred tax liability increased by €27,590 (28%) to €125,827 as of 31 December 2017 from €98,237 as of 31 December 2016, mainly due to revaluation of investment property.

The value of investment, trade payables and provisions increased temporarily by €13,766 (38%) to €50,505 as of 31 December 2017 from €36,739 as of 31 December 2016, mainly due to settlement invoices and provisions related to completion of Galeria Północna.

Equity

Equity increased by €150,939 (19%) to €941,262 as of 31 December 2017 from €790,323 on 31 December 2016. The changes are attributed to an increase in accumulated profit by €126,782 and an increase in share premium of €21,216 following issue of L series shares to pay dividend in the form of shares. This increases were partially offset by a decrease due to dividend payment in the amount of €8,061.

Item 5.5. Consolidated income statement

Item 5.5.1. Key items of the consolidated income statement

Revenues from operations

Revenues from operations consist of:

- rental income, which consists of monthly rental payments paid by tenants of the Group's investment properties for the office or retail space rented by such tenants. Rental income is recognized as income over the lease term;

- service income, which comprises fees paid by the tenants of the Group's investment properties to cover the costs of the services provided by the Group in relation to their leases; and

- residential revenue, which comprises proceeds from the sales of houses or apartments, which is recognized when such houses or apartments have been substantially constructed, accepted by the customer and a significant amount resulting from the sale agreement has been paid by the purchaser.

Cost of operations

Costs of operations consist of:

- service costs, which consist of all the costs that are related to the management services provided to the individual tenants within the Group's properties — service costs should be covered by service income; and

- residential costs, which comprise the costs that are related to the development of residential properties sold. The costs related to the development of residential properties incurred during the construction period are capitalized in inventory. Once income is recognized, the costs in respect of sold units are expensed.

Gross margin from operations

Gross margin from operations is equal to the revenues from operations less the cost of operations.

Selling expenses

Selling expenses include:

- brokerage and similar fees incurred to originate the lease or sale of space;

- marketing and advertising costs; and

- payroll and related expenses directly related to leasing or sales personnel.

Administrative expenses

Administration expenses include:

- payroll, management fees and other expenses that include the salaries of all employees that are not directly involved in sales or rental activities;
- provisions made to account for the share-based incentive program that was granted to key personnel;
- costs related to the sale of investment properties;
- costs of audit, legal and other advisors;
- office expenses;
- depreciation and amortization expenses include depreciation and amortization of the Group's property, plant and equipment; and
- others.

Profit/(loss) from the revaluation/impairment of assets

Net valuation gains (loss) on investment property and investment properties under development reflect the change in the fair value of investment properties and investment property under development.

Financial income/(expense), net

Financial income includes interest on loans granted to associate companies and interest on bank deposits.

Financial expenses include interest on borrowings and deferred debt rising expenses. Borrowing costs are expensed in the period in which they are incurred, except for those that are directly attributable to construction. In such a case, borrowing costs are capitalized as part of the cost of the asset. Borrowing costs include interest and foreign exchange differences.

Additionally, financial income or expenses include settlement of financial assets and gain or losses arising from changes in fair value of derivatives that do not qualify for hedge accounting.

Taxation

Income tax on profit or loss for the year comprises current and deferred tax. Current tax is the expected tax payable on the taxable income for the year using tax rates enacted or substantially enacted as of the balance sheet date and any adjustments to tax payable in respect of previous years. Generally, the Group disposes of property holding companies rather than the real estate itself, in part because in certain jurisdictions the sale and disposal of real estate is generally subject to real estate transfer tax and/or VAT.

Item 5.5.2. Comparison of financial results for the 12 month period ended 31 December 2017 with the result for the corresponding period of 2016

Revenues from rental activity

Rental and service revenues increased by €8,268 to €122,609 in the twelve-month period ended 31 December 2017. During the year ended 31 December 2017, the Group has improved the rental revenue through leasing of University Business Park B, FortyOne II, as well as completion of FortyOne III and Galeria Północna which were opened to the public during the year 2017. These buildings contributed €7,300 to the recurring rental income in the period. Additionally, the acquired Cascade Office Building and Belgrade Business Centre contributed €1,553 to the recurring rental income in the period. During the period, the Group has commenced the refurbishment and extension of GTC Square in Belgrade (part of Green Heart project), which will further improve rental income from this project once completed. As a result of the refurbishment the building had to be partially vacated and a temporary decline in rental income of €995 was recognized in the twelve-month period ended 31 December 2017. Furthermore, as per its strategic decision outside Poland to focus its investment only on capital cities, the Group sold Galleria Stara Zagora and Galleria Burgas and commenced investment is Sofia in a project that is expected to yield higher return than the sold malls. As a result of the sale, the revenue from this two assets in the twelve-month period ended 31 December 2017 decreased by €5,935.

Cost of rental activity

Cost of rental activity increased by €4,191 to €32,081 in the twelve-month period ended 31 December 2017. The completion of new office and retail space in three projects and acquisition of income generating assets as mentioned above contributed €6,256, whilst the sale of the non-core malls has offset the increase by €2,065.

Residential activity

Residential revenue increased by €168 to €6,128 in the twelve-month period ended 31 December 2017 and comes mainly from sale the last phase of Osiedle Konstancja project. Residential cost decreased by €550 to €4,515 in the twelve-month period ended 31 December 2017.

Gross margin from operations

Gross margin (profit) from operations increased by €4,795 to €92,141 in the twelve-month period ended 31 December 2017. The gross margin (profit) on rental activities increased by €4,077 to €90,528 in the twelve-month period ended 31 December 2017 from €86,451 in the twelve-month period ended 31 December 2016 mostly resulting from by newly completed and acquired properties partially offset by sale of non-core assets.

Gross margin on rental activities in the twelve-month period ended 31 December 2017 was 73.8% compared to 75.6% in the twelve-month period ended 31 December 2016 as the newly completed asset Galeria Północna has not yet stabilized. The gross margin (profit) on residential activities decreased by €718 to €1,613 in the twelve-month period ended 31 December 2017 from €895 in the twelve-month period ended 31 December 2016.

Administrative expenses

Administrative expenses (before provision for stock based program) increased by €204 to €11,504 in the twelve-month period ended 31 December 2017. In addition, mark-to-market of Phantom Shares program resulted in recognition of provision for share based payment of €3,698 in the twelve-month period ended 31 December 2017 (share price PLN 9.80) compared to share based payment of €894 recognized in the twelve-month period ended 31 December 2016 (share price PLN 8.20).

Profit/(loss) from the revaluation/impairment of assets

Net profit from the revaluation of the investment properties and impairment of residential projects amounted to €148,562 in the twelve-month period ended 31 December 2017, as compared to a net profit of €84,551 in the twelve-month period ended 31 December 2016. Net profit from the revaluation of the investment properties reflects mainly revaluation gain on Galeria Północna, which was valued following its completion in September 2017 combined with value appreciation of income generating assets following an improvements in their occupancy, WALT and / or NOI (mostly Galeria Jurajska, Center Point I&II, Duna Tower, FortyOne III).

Other expense, net

Other expenses (net of other income) related to due diligence and business development activity and landbank properties were at €1,322 in the twelve-month period ended 31 December 2017 as compared to an expense of €1,642 in the twelve-month period ended 31 December 2016.

Foreign exchange profit/loss

Foreign exchange loss amounted to €4,906 in the twelve-month period ended 31 December 2017, as compared to a foreign exchange profit of €2,435 in the twelve-month period ended 31 December 2016, mostly due to strengthening of PLN vs. EUR.

Financial income

Financial income decreased by €1,090 to €234 in the twelve-month period ended 31 December 2017 as compared to €1,324 in the twelve-month period ended 31 December 2016.

Financial cost

Financial cost decreased by €652 to €28,848 in the twelve-month period ended 31 December 2017 as compared to €29,500 in the twelve-month period ended 31 December 2016 mainly due refinancing activity which decreased the average borrowing cost from 3.2% in the twelve-month period ended 31 December 2016 to 2.8% as of 31 December 2017. The decrease was achieved despite an increase in the average debt balance by €141,152 as of 31 December 2017 compared to 31 December 2016. Additionally a one-off fair value profit from hedging instruments was recognized.

Share of profit/ (loss) of associates

Share of profit of associates increased by €4,362 to €184 in the twelve-month period ended 31 December 2017 as compared to a share of loss of €4,474 in the twelve-month period ended 31 December 2016, as a result of selling the associate stake in Prague Mall, and St. Petersburg land.

Profit before tax

Profit before tax increased by €64,122 to €188,692 in the twelve-month period ended 31 December 2017, as compared to profit before tax of €124,570 in the twelve-month period ended 31 December 2016, mainly due to an increase in profit from revaluation coming mainly from revaluation of Galeria Północna upon completion of the project and other office and retail properties following improved results.

Taxation

Tax amounted to €32,094 in the twelve-month period ended 31 December 2017. Taxation consist of €5,655 of current tax expenses and €26,384 of deferred tax expenses. In 2016 the Company recognized a one–off tax benefit of €48,000, following a merger of GTC S.A. with GTC Real Estate Investments Ukraine B.V. and GTC RH B.V.

Net profit/ (loss)

Net profit amounted to €156,598 in the twelve-month period ended 31 December 2017, as compared to a net profit of €159,575 in the twelve-month period ended 31 December 2016 This was mostly due profit from the revaluation of the investment properties and in particular investment property under construction of €148,562 compared to €84,551 in the twelve-month period ended 31 December 2016. Profit before tax, revaluation and share based payment has increased by €2,915 in the twelve-month period ended 31 December 2017, compared to the twelve-month period ended 31 December 2016.

Business segmental analysis

The operating segments are aggregated into reportable segments, taking into consideration the nature of the business, operating markets and other factors. The Company operates in four core markets: Poland, Budapest, Bucharest and Belgrade. Additionally, the Company operates in Zagreb and starting from September 2017 its operation in Bulgaria is solely in Sofia. During 2016 the Company withdrew its operations in Slovakia.

Operating segments are divided into geographical zones, which have common characteristics and reflect the nature of management reporting structure:

a. Poland

b. Belgrade

c. Budapest

d. Bucharest

e. Zagreb

f. Bulgaria

g. Other

Segment analysis of rental income and costs for the years ended 31 December 2017 and 31 December 2016 is presented below:

	2017			2016		
Portfolio	**Revenues**	**Costs**	**Gross margin**	**Revenues**	**Costs**	**Gross margin**
Poland	63,258	(19,701)	43,557	46,264	(10,919)	35,345
Belgrade	15,529	(3,628)	11,901	12,931	(2,855)	10,076
Budapest	20,416	(4,880)	15,536	19,766	(4,666)	15,100
Bucharest	15,898	(3,683)	12,215	16,209	(4,092)	12,117
Zagreb	10,789	(3,744)	7,045	10,529	(3,370)	7,159
Bulgaria	2,847	(960)	1,887	8,782	(2,109)	6,673
Other (*)	-	-	-	5,820	(4,944)	876
Total	**128,737**	**(36,596)**	**92,141**	**120,301**	**(32,955)**	**87,346**

(*) In 2016, the Company had activity in Slovakia

Segment analysis of assets and liabilities for the years ended 31 December 2017 is presented below:

	2017							
	Real estate	**Cash and deposits**	**Other**	**Total assets**	**Loans and bonds**	**Deferred tax liability**	**Other**	**Total liabilities**
Poland	1,013,842	83,696	7,549	**1,105,087**	529,541	70,242	40,196	**639,979**
Belgrade	276,218	7,454	2,138	**285,810**	74,091	14,443	13,329	**101,863**
Budapest	298,573	14,302	2,898	**315,773**	115,777	9,256	7,035	**132,068**
Bucharest	223,859	11,742	2,005	**237,606**	113,260	11,844	7,708	**132,812**
Zagreb	121,930	4,079	1,204	**127,213**	12,811	16,079	4,618	**33,508**
Bulgaria	19,028	267	729	**20,024**	-	-	335	**335**
Other (*)	9,008	37	6	**9,051**	-	-	1,181	**1,181**
Non allocated	-	79,925	2,120	82,045	188,605	3,963	7,033	**199,601**
	1,962,458	**201,502**	**18,649**	**2,182,609**	**1,034,085**	**125,827**	**81,435**	**1,241,347**

Segment analysis of assets and liabilities for the years ended 31 December 2016 is presented below:

	2016							
	Real estate	Cash and deposits	Other	Total assets	Loans and bonds	Deferred tax liability	Other	Total liabilities
Poland	800,961	42,670	18,683	862,314	388,058	45,905	22,114	456,077
Belgrade	192,663	9,894	1,582	204,139	69,060	12,044	12,444	93,548
Budapest	248,658	20,025	1,393	270,076	118,482	7,859	6,245	132,586
Bucharest	203,834	10,164	2,269	216,267	111,573	9,824	5,210	126,607
Zagreb	106,123	2,039	964	109,126	17,166	14,736	3,014	34,916
Bulgaria	67,085	3,438	3,826	74,349	34,783	-	2,074	36,857
Other (*)	9,305	68	7	9,380	-	-	1,334	1,334
Non allocated	-	89,439	4,400	93,839	153,811	7,869	5,562	167,242
	1,628,629	**177,737**	**33,124**	**1,839,490**	**892,933**	**98,237**	**57,997**	**1,049,167**

(*) Other assets include non-core land plots in Ukraine and Marlera, Croatia

In prior year financial statements segments were as following: Poland and Hungary, SEE capital cities, SEE secondary cities. During the last two years, the company sold its non-core activity in SEE secondary cities. Starting from 30 June 2017 Management decided to present each country as a separate reporting segment.

tem 5. 6. Consolidated cash flow statement

Item 5.6.1. Key items from consolidated cash flow statement

Net cash from (used in) operating activities

The operating cash flow is the cash that the Group generates through running its business and comprises cash inflows from rental activities and sale of residential projects.

Net cash used in investing activities

The investing cash flow is the aggregate change in the Group's cash position resulting from any gains (or losses) from investments in the financial markets, investment properties and operating subsidiaries, as well as changes resulting from amounts spent on investments in capital assets, such as property, plant and equipment.

Net cash from (used in) financing activities

The cash flow from (used in) financing activities accounts for, inter alia, the payment of cash dividends, receiving proceeds from loans or bond and issuing stock.

Cash and cash equivalents

Cash balance consists of cash in banks. Cash in banks may earn interest at floating rates based on daily bank deposit rates, if those are positive. Short-term deposits are made for varying periods of between one day and three months, depending on the immediate cash requirements of the Group, and earn interest at the respective short-term deposit rates, if those are positive. All cash is deposited in banks. All cash and cash equivalents are available for use by the Group.

Item 5.6.2. Cash flow analysis

The table below presents an extract of the cash flow for the period of twelve months ended on 31 December 2017 and 2016:

	Year ended 31 December 2017	Year ended 31 December 2016
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net cash from operating activities	**80,678**	**73,281**
CASH FLOWS FROM INVESTING ACTIVITIES:		
Expenditure on investment property	(155,204)	(93,259)
Purchase of completed assets and land	(62,108)	(139,646)
Purchase of subsidiary	(15,896)	(9,844)
Increase in Escrow accounts for purchase of assets	(777)	
Sale (including advances) of investment property	4,499	12,640
Sale of subsidiaries and shares in associates	38,795	14,126
Purchase of non-controlling interest	(352)	(18,558)
VAT/tax on purchase/sale of investment property	10,953	(8,900)
Other loans, interest and similar costs	1,786	11,651
Net cash used in investing activities	**(178,304)**	**(231,790)**
CASH FLOWS FROM FINANCING ACTIVITIES		
Distribution of dividend	(8,061)	-
Proceeds from long-term borrowings	258,268	273,517
Repayment of long-term borrowings	(100,343)	(103,193)
Interest paid	(26,241)	(25,075)
Loans origination payment	(3,573)	(2,229)
Decrease (increase) in short term deposits	(24,831)	(2,214)
Net cash from (used in) financing activities	**95,219**	**140,806**
Net foreign exchange difference	1,341	(1,957)
Net increase/(decrease) in cash and cash equivalents	(1,066)	(19,660)
Cash and cash equivalents, at the beginning of the year	**149,812**	**169,472**
Cash and cash equivalents, at the end of the year	**148,746**	**149,812**

Net cash flow from operating activities was €80,678 in the twelve-month period ended 31 December 2017 compared to €73,281 in the twelve-month period ended 31 December 2016.

Net cash flow used in investing activities amounted to €178,304 in the twelve-month period ended 31 December 2017 compared to €231,790 used in the twelve-month period ended 31 December 2016. Cash flow used in investing activities composed of (i) expenditure on investment properties of €155,204 related mainly on Galeria

Północna (Warsaw, Poland), FortyOne III (Belgrade, Serbia) and Artico (Warsaw, Poland) as well as properties under construction: Ada Mall and Green Heart (Belgrade, Serbia) and White House (Budapest, Hungary) as well as (ii) acquisition of office buildings and land plots for future development of €62,108. Cash flow used in investing activities was partially offset by sale of Galeria Burgas and Galeria Stara Zagora in Bulgaria and shares in associates of €38,795.

Proceeds from long-term borrowings for the twelve-month period ended 31 December 2017 in the amount of €258,268 are related mainly to loans for assets under construction in the amount of €170,936 as well as issue of bonds and corporate loan in the amount of €78,604. Net cash flow from financing activities amounted to €95,219 in the twelve-month period ended 31 December 2017, compared to €140,806 of cash flow from financing activities in the twelve-month period ended 31 December 2016. Cash flow from financing activities was partially offset by repayment of long term borrowings of €100,343 related mainly to repayment of bonds, accelerated repayment of Galleria Stara Zagora and Galleria Burgas loans, as well as amortization of investment loans.

FFO generated during the twelve-month period ended 31 December 2017 amounted to €47.3 million and revenue generated by sale of residential and non-core land plots amounted to €9 million.

Cash and cash equivalents as of 31 December 2017 amounted to €148,746 compared to €149,812 as of 31 December 2016. The Group keeps its cash in the form of bank deposits, mostly in Euro, with various international banks.

Item 5.7. Future liquidity and capital resources

As of 31 December 2017, the Group holds cash and cash equivalent in the amount of approximately €148,746. The Group believes that its cash balances and cash generated from leasing activities of its investment properties as well as cash available under its existing and future loan facilities will fund these needs.

The Group endeavors to efficiently manage all its liabilities and is currently reviewing its funding plans related to: (i) development and acquisition of commercial properties, (ii) debt servicing of its existing assets portfolio and (iii) capex. Such funding will be sourced through available cash, operating income and refinancing.

As of 31 December 2017, the Group's non-current liabilities amounted to €1,052,216 compared to €852,865 as of 31 December 2016.

The Group's total debt from long and short-term loans and borrowings as of 31 December 2017 amounted to €1,034,085 as compared to €892,933 as of 31 December 2016. The Group's loans and borrowings are mainly denominated in Euro (89%), other currencies include bonds in PLN and projects loans in HUF.

The Group's loan-to-value ratio amounted to 42% as of 31 December 2017, as compared to 43% as of 31 December 2016. The Group's strategy is to keep its loan-to-value ratio at the level not exceeding 50%.

As of 31 December 2017, 90% of the Group's loans (by value) were hedged against interest fluctuations, mostly through interest rate swaps and currency swap as mentioned above.

Availability of financing

In the CEE and SEE markets, real estate development companies, including the companies of the Group, usually finance their real estate projects with proceeds from bank loans, loans extended by their holding companies or the issuance of debt securities. The availability and cost of procuring financing are of material importance to the implementation of the Group's projects and for the Group's development prospects, as well as its ability to repay existing debt. Finally, the availability and cost of financing may impact the Group's development dynamics and the Group's cash flow and net profit.

Traditionally, the principal sources of financing for the Group's core business included, rental revenues, bank loans, proceeds from bonds issued by the Company and proceeds from asset disposals**.**

Item 6. Information on use of proceeds from the issuance of shares and bonds

In 2017, the GTC SA has issued three year euro denominated bonds in the total amount of €68,604. The net proceeds from the issuance of the bonds amounted to €67,192 and were designated for repayment of existing bonds and corporate debt as well as for general corporate activities.

In May 2017, the Company's shareholders adopted a resolution regarding a distribution of dividend in the amount of PLN 124,258 (€29,500) and allowing the Company's shareholders to elect to receive the dividend in the form of newly issued shares or in cash depending what shareholders prefer. As a result in June 2017, the Company issued 10,087,026 series L Shares to some of the Company's shareholders and paid a cash dividend in the amount of €8,100 to remaining shareholders.

Item 7. Information on loans granted with a particular emphasis on related entities

During 2017, the Group did not grant any new loans to its associates or joint ventures.

The following table presents the balance as of 31 December 2017 of long-term loans that have been granted to the Group's subsidiaries and associates:

Associate	Amount of loan (€)	Currency	Interest rate
Yatelsis Viborgskaya Limited of Nicosia	1,303	USD	Eurobor + 3%

Item 8. Information on granted and received guarantees with a particular emphasis on guarantees granted to related entities

GTC gave guarantees to third parties. As of 31 December 2017 the guarantees granted amounted to €2,000.

Additionally, the Company gave typical warranties in connection with sale of its assets, under the sale agreements, and construction cost-overruns guarantees to secure construction loans. The risk involved in above warranties and guarantees is very low.

Item 9. Off balance liabilities

Commitments

As of 31 December 2017 (31 December 2016), the Group had commitments contracted for in relation to future building construction without specified date, amounting to €99,000 (€126,000). These commitments are expected to be financed from available cash and current financing facilities, other external financing or future instalments under already contracted sale agreements and yet to be contracted sale agreements.

Guarantees

GTC gave guarantees to third parties. As of 31 December 2017 the guarantees granted amounted to €2,000.

Additionally, the Company gave typical warranties in connection with sale of its assets, under the sale agreements, and construction cost-overruns guarantees to secure construction loans. The risk involved in above warranties and guarantees is very low.

Croatia

In relation to the Marlera Golf project in Croatia, part of the land is held on a lease basis from the State. There is furthermore a Consortium agreement with the Ministry of Tourism of Croatia (Ministry) which includes a deadline for the completion of a golf course that has expired in 2014. The Company has taken active steps to achieve an extension of the period for completing the project. In February 2014, the Company received a draft amendment from the Ministry expressing its good faith and intentions to prolong the abovementioned timeline however the amendment was not formalized. Since 2015 parliamentary elections have taken place twice, the most recent being in September 2016. This temporarily froze the formalization of the amendment. Towards the end of 2016 contact was established with the newly formed Government who have requested a rewording of the amendment which is currently being reviewed by the relevant ministries. Since formalization of the amendment is no longer at the sole discretion of the Group, the Management has decided to revalue the freehold asset in assuming no development of the golf course project. As of 31 December 2017 the book value of the investment in Marlera was assessed by an independent valuer at €6,900 and is assumed to be fully recoverable.

Item 10. Major investments, local and foreign (securities, financial instruments, intangible assets, real estate), including capital investments outside the Group and its financing method

The Group does not have any major local or foreign investments other than direct investments in real estate properties designated for development, or through companies that hold such real estate.

Item 11. Information on market risks

The Group’s principal financial instruments comprise bank and shareholders’ loans, hedging instruments, trade payables and other long-term financial liabilities. The main purpose of these financial instruments is to finance the Group’s operations. The Group has various financial assets such as trade receivables, loans granted, derivatives and cash and short-term deposits.

The main risks arising from the Group’s financial instruments are cash flow interest risk, liquidity risk, foreign currency risk and credit risk.

Interest rate risk

The Group exposure to changes in interest rates which are not offset by hedge relates primarily to the Group's long-term debt obligations and loans granted.

The Group’s policy is to obtain finance bearing variable interest rate. To manage the interest rate risk in a cost-efficient manner, the Group enters into interest rate swaps or cap transactions.

The majority of the Group’s loans are nominated or swapped into Euro.

A 50bp change in Euribor rate would lead to €1,698 change in profit (loss) before tax.

Foreign currency risk

The group enters into transactions in currencies other than the Group's functional currency. Therefore it hedges the currency risk by either matching the currency of the inflow, outflow and cash and cash equivalent with that of the expenditures.

The table below presents the sensitivity of profit (loss) before tax due to change in foreign exchange:

	2017				**2016**			
	PLN/Euro				**PLN/Euro**			
	-10%	**-5%**	**+5%**	**+10%**	**-10%**	**-5%**	**+5%**	**+10%**
Cash and cash equivalents	2,556	1,278	(1,278)	(2,556)	3,390	1,695	(1,695)	(3,390)
Trade and other receivables	768	384	(384)	(768)	1,848	924	(924)	(1,848)
Trade and other payables	(2,352)	(1,176)	1,176	2,352	(1,792)	(876)	876	1,792
Short term loans					(1,310)	(654)	654	1,310
Bonds	(7,262)	(3,631)	3,631	7,262	(11,326)	(5,663)	5,663	11,326

Exposure to other currencies and other positions in statement of financial position are not material.

Credit risk

Credit risk is the risk that a party to a financial instrument will fail to discharge an obligation. To manage this risk the Group periodically assesses the financial viability of its customers. The Group does not expect any counter parties to fail in meeting their obligations. The Group has no significant concentration of credit risk with any single counterparty or Group counterparties.

With respect to trade receivables and other receivables that are neither impaired nor past due, there are no indications as of the reporting date that those will not meet their payment obligations.

With respect to credit risk arising from the other financial assets of the Group, which comprise cash and cash equivalents and blocked deposits the Group’s exposure to credit risk equals to the carrying amount of these instruments.

The maximum exposure to credit risk as of the reporting date is the full amount presented.

There are no material financial assets as of the reporting dates, which are overdue and not impaired. There are no significant financial assets impaired.

Liquidity risk

As at 31 December 2017, the Group holds Cash and Cash Equivalent (as defined in IFRS) in the amount of approximately €150,000. As described above, the Group attempts to efficiently manage all its liabilities and is currently reviewing its funding plans related to: (i) debt servicing of its existing assets portfolio; (ii) capex; and (iii) development of commercial properties. Such funding will be sourced through available cash, operating income, sales of assets and refinancing. The Management Board believes that based on its current assumptions, the Group will be able to settle all its liabilities for at least the next twelve months.

Repayments of long-term debt and interest are scheduled as follows (Euro million):

	31 December 2017	31 December 2016
First year	150	176
Second year	157	130
Third year	240	149
Fourth year	186	184
Fifth year	66	166
Thereafter	334	176
	1,133	**981**

The above table does not contain payments relating to market value of derivative instruments. The Group hedges significant parts of the interest risk related to floating interests rate with derivative instruments. Management plans to refinance some of the repayment amounts.

All derivative instruments mature within 1-5 years from the balance sheet date.

Fair Value

As of 31 December 2017 and 2016, all bank loans bear floating interest rate (however, as of 31 December 2017 and 2016, 90% and 70% of loans are hedged). The fair value of the loans which is related to the floating component of the interest equals to the market rate.

Fair value of all other financial assets/liabilities equals to carrying value.

For fair value of investment property please refer to note 18 of Consolidate Financial Statement for the year ended 31 December 2017.

Fair value hierarchy

As at 31 December 2017, the Group held several hedge instruments carried at fair value on the statement of financial position.

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities,

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly,

Level 3: techniques which use inputs that have a significant effect on the recorded fair value that are not based on observable market data.

Valuations of hedges are considered as level 2 fair value measurements. During the year ended 31 December 2017 and 31 December 2016, there were no transfers among Level 1 and Level 3 fair value measurements.

Price risk

The Group is exposed to fluctuations of in the real estate markets in which it operates. These can have an effect on the Group's results. Further risks are detailed in point 3. Key risk factors

Capital management

The primary objective of the Group's capital management is to provide for operational and value growth while prudently managing the capital and maintaining healthy capital ratios in order to support its business and maximise shareholder value.

The Group manages its capital structure and adjust it to dynamic economic conditions. While observing the capital structure, the Group decides on leverage policy, loans raising and repayments, investment or divestment of assets, dividend policy and capital raise, if needed.

No changes were made in the objectives, policies or processes during the years ended 31 December 2017 and 31 December 2016.

The Group monitors its gearing ratio, which is Gross Project and Corporate Debt less Cash & Deposits, (as defined in IFRS) divided by its real estate investment value. The Group's policy is to maintain the gearing ratio at the level not higher than 50%.

	31 December 2017	**31 December 2016**
(1) Loans, net of cash and deposits (*)	829,492	703,229
(2) Investment properties, inventory and assets held for sale	1,958,407	1,623,790
Gearing ratio [(1)/(2)]	42.4%	43.3%

(*) Excluding loans from joint ventures and minorities and deferred issuance debt expenses.

Item 12. Remuneration policy and human resources management

Item 12.1 Remuneration policy

Employees of the Group may receive the following remuneration components: base remuneration, bonuses for specific achievements and share based payment in a form of participation in phantom share plan.

Item 12.2 Number of employees as at 31 December 2017

As of 31 December 2017 and 2016 the number of full time equivalent working in the Group companies was 171 and 172 respectively.

Item 12.3 Incentive system

The Company has a remuneration and incentive system that consists of a bonus for meeting specific goals or objectives set by the Management Board or Supervisory Board (as the case may be) or achieving special achievements. The Company's key managers are also incentivized by participation in phantom share plan, according to which a certain number of phantom shares is vested to the employee once a year.

Item 12.4 Training policy

The Company offers its employees various forms to raise professional qualifications. The key strategic training and workshops are conducted by external companies. Such training opportunities focus mainly on market and product knowledge, marketing, processes and IT applications competencies, asset management, legal, tax and accounting. The Company believes that such training is increasing the employee's commitment to the performance of business tasks, improving his/her skills and maintaining high customer service quality.

Item 12.5 Benefits for Supervisory and Management Board members

Principles of remunerating the Management Board members

According to principles of remuneration of the Company's Management Board members which drew by the Supervisory Board, members of the Company's Management Board are entitled to: basic remuneration at an amount determined by the Company's Supervisory Board for each member of the Board, variable remuneration components as a result of meeting specific goals and achievements, severance payout related to the termination of the employment, and participation in phantom share plan according to which, every year a certain amount of phantom shares are vested to the member of the Board.

Management contracts with members of the Management Board setting out severance payouts as a result of their dismissal from their position without a material cause. Such payout is subject to 6-month prior notice and compensation according to the Polish law.

The contracts of the Company's Management Board members include provisions regarding severance package payouts as a result of their resignation or dismissal from their position without material cause.

Principles of remunerating the Supervisory Board members

Members of the Supervisory Board are entitled to a fixed monthly amount set by the shareholders meeting.

Item 12.6 Agreements concluded between GTC and Management Board members

The Company has concluded agreement with its two Members of the Board, providing for their basic compensation, performance related bonus, participation if phantom share plan, severance payment in the case of their dismissal. Furthermore, the agreements contain a non-competition clause and confidentiality clause.

Item 12.7 Evaluation of the remuneration policy for the realization of its objectives

The remuneration policy is consistent with the shareholders target to have a long-term increase in shareholder value. Furthermore it aims to provide stability in managing the Company and carrying out its policies by attracting and retaining highly skilled employees across the organization and operation countries of the Company. Such goals guarantee motivation for quality work and the good attitude of employees, stable financial results in the long run, sound and effective risk management, supporting the implementation of the business strategy and the reduction of conflict of interest.

Item 12.8 Remuneration of the Members of the Management Board and Supervisory Board

Management Board

The following table presents the remuneration of the members of the Management Board as of 31 December 2017 for the 12 months ended 31 December 2017:

Name	Fixed remuneration[1] (€) (not in thousand)	Variable remuneration[1] (€) (not in thousand)	Vested Phantom Shares (not in thousand)
Thomas Kurzmann	365,000	150,000	512,000
Erez Boniel	322,000	100,000	307,200

[1] Remuneration (or fees to entities in which the holder is a key personnel) consists of payment for 2017 and success fee amounts paid for present and past year in addition to Group's Phantom Shares program vested during 2017, as detailed in Item 12.9. Stock option plan. During the year none of the Phantom Shares were exercised.

Supervisory Board

The following table presents the remuneration of the members of the Supervisory Board as of 31 December 2017 for the 12 months ended 31 December 2017:

Name	Periods	Remuneration[1] (€) (not in thousand)	Vested Phantom Shares (not in thousand)
Alexander Hesse	1 January - 31 December 2017	0	0
Philippe Couturier	1 January - 31 December 2017	0	0
Jan Düdden	1 January - 31 December 2017	0	0
Mariusz Grendowicz	1 January - 31 December 2017	29,000	0
Ryszard Koper	1 January – 31 December 2017	23,000	0
Marcin Murawski	1 January - 31 December 2017	27,000	0
Katharina Schade	1 January - 31 December 2017	0	0
Tomasz Styczyński	1 January – 21 September 2017	16,000	0
Ryszard Wawryniewicz	26 September - 31 December 2017	6,000	

[1] Remuneration (or fees to entities in which the holder is a key personnel) consists of payment for 2017 and success fee amounts paid for present and past year in addition to Group's Phantom Shares program vested during 2017, as detailed in Item 12.9. Stock option plan. During the year none of the Phantom Shares were exercised.

On 21 September 2017 Tomasz Styczyński submitted his resignations from position of a member of the Supervisory Board of the Company with immediate effect.

Powszechne Towarzystwo Emerytalne PZU SA, with its registered seat in Warsaw, acting on behalf of Otwarty Fundusz Emerytalny PZU "Złota Jesień", has appointed Ryszard Wawryniewicz to the Company's Supervisory Board for a three-year term of office commencing on 26 September 2017.

Item 12.9 Stock option plan

Certain key management personnel of the Company are entitled to specific payments resulting from phantom shares in the Company (the "**Phantom Shares**").

The Phantom Shares grant to the entitled persons a right for a settlement from the Company in the amount equal to the difference between the average closing price for the Company's shares on the Warsaw Stock Exchange during the 30-day period prior to the date of delivery to the Company of the exercise notice, and settlement price ("strike") amount per share (adjustable for dividend). The Phantom Shares are not securities convertible or exchangeable into shares in the Company, in particular, they are not options on such shares. The Phantom Shares are merely a means of calculation of deferred variable compensation of the entitled persons, which depends on the future market price of the shares on the regulated market.

The Phantom shares (as presented in below mentioned table) have been accounted for based on future cash settlement.

Strike (PLN)	Blocked	Vested	Total
9.67	105,000		105,000
7.73	100,000	50,000	150,000
6.82	3,876,400	4,044,800	7,921,200
Total	**4,081,400**	**4,094,800**	**8,176,200**

As at 31 December 2017, phantom shares issued were as follows:

Last exercise date	Strike (in PLN)	Number of phantom shares
30/06/2019	6.82	1,894,400
31/12/2020	7.73	150,000
30/06/2021	6.82	1,275,200
15/08/2021	6.82	3,036,000
31/12/2021	6.82	1,412,000
31/12/2021	9.73	105,000
30/06/2022	6.82	303,600
Total		**8,176,200**

The Phantom shares (as presented in above mentioned table) have been provided for according to cash payments method.

Item 12.9.1. Stock option control system

Granting phantom shares to members of the Management Board and setting their condition is reviewed and approved by the Remuneration Committee and the Supervisory Board. Remuneration to other key personnel is set by the Management Board.

Item 12.10 Information on any liabilities arising from pension and *similar benefits for former members of the Management Board and the Supervisory Board*

There are no liabilities arising from pension and similar benefits for former members of the Management Board and the Supervisory Board**.**

Item 13. Shares in GTC held by members of the Management Board and the Supervisory Board

Shares held by members of the Management Board

The following table presents shares owned directly or indirectly by members of the Company's Management Board of 21 March 2018, the date of publication of this annual report, and changes in their holdings since the date of publication of Group's last financial report (interim report for the three and nine-month period ended 30 September 2017) on 13 November 2017.

The information included in the table is based on information received from members of the Management Board pursuant to Art. 160 sec. 1 of the Act on Trading in Financial Instruments.

Management Board Member	Balance as of 21 March 2018 (not in thousand)	Nominal value of shares in PLN (not in thousand)	Change since 13 November 2017 (not in thousand)
Thomas Kurzmann	55,000	5,500	No change
Erez Boniel	143,500	14,350	No change
Total	**198,500**	**19,850**	

Phantom Shares vested to members of the Management Board

The following table presents Phantom Shares vested to members of the Company's Management Board as of 31 December 2017 and change since 30 September 2017.

Management Board Member	Balance as of 31 December 2017 (not in thousand)	Change since 30 September 2017 (not in thousand)
Thomas Kurzmann	1,536,000	no change
Erez Boniel	521,000	increase by 102,400

Shares of GTC held by members of the Supervisory Board

The following table presents shares owned directly or indirectly by members of the Company's Supervisory Board of 21 March 2018, the date of publication of this annual report, and changes in their holdings since the date of publication of Group's last financial report (interim report for the three and nine-month period ended 30 September 2017) on 13 November 2017.

The information included in the table is based on information received from members of the Supervisory Board pursuant to Art. 160 sec. 1 of the Act on Trading in Financial Instruments.

Members of Supervisory Board	Balance as of 21 March 2018 (not in thousand)	Nominal value of shares in PLN (not in thousand)	Change since 13 November 2017
Alexander Hesse	0	0	No change
Olivier Brahin[1]	0	0	No change
Philippe Couturier	0	0	No change
Jan Düdden	0	0	No change
Mariusz Grendowicz	10,158	1,016	No change
Ryszard Koper	0	0	No change
Marcin Murawski	0	0	No change
Katharina Schade	0	0	No change
Ryszard Wawryniewicz	0	0	No change
Total	**10,158**	**1,016**	

[1] Change since 1 March 2018.

On 23 February 2018 LSREF III GTC Investments B.V. appointed Mr. Olivier Brahin as a member of the supervisory board of the Company, effective 1 March 2018.

Item 14. Transactions with related parties concluded on terms other than market terms

The Group presents information on the material transactions that the Company, or its subsidiaries, concluded with a related party in the consolidated financial statements for the financial year ended 31 December 2017 in Note 37 *Related Party Transactions*.

Item 15. Information on signed and terminated loan agreements within a given year

In January 2017, the Company issued denominated three year Schuldschein loan in the total amount of €10,000. The loan bears a fixed interest of 3.25% p.a, to be paid every six months. The loan will be expired on 31 December 2019.

In March 2017, the Company issued three-year Euro denominated bonds, listed on WSE, in the total amount of €18,500. The bonds bears a fixed interest of 3.75% p.a and the maturity date is 31 March 2020.

In March 2017, the Group signed a prolongation of the loan agreement for Corius building in Poland. The annex did not change the amount of the investment loan (€11,300). The loan will be expired on 31 December 2021.

In March 2017, the Group signed a loan agreement for White House office building in Hungary. The total loan amounts to €26,000. The loan will be expired on 31 March 2024.

In May 2017, the Group early repaid the loan for Galeria Burgas shopping centre in Bulgaria, in the amount of €19,500.

In May 2017, the Group early repaid the loan for Galeria Stara Zagora shopping centre in Bulgaria, in the amount of €6,900.

In June 2017, the Company issued 3-year Euro denominated bonds, listed on WSE, in the total amount of €40,000. The bonds bears a fixed interest of 3.75% p.a and the maturity date is 14 June 2020.

In August 2017, the Group refinanced 19 Avenue, office building in Serbia. The annex increase the amount of the investment loan by €2,500 to €24,700. The loan will be expired on 28 February 2024.

In October 2017, the Group refinanced Korona Office Complex, office park in Poland. The annex increase the amount of the investment loan by €6,233 to €46,500. The loan will be expired on 2 October 2022.

In November 2017, the Group signed a loan agreement for Green Heart office complex under construction in Serbia. The total loan amounts to €60,000. The loan will be expired on 31 December 2023.

In November 2017, the Group signed a loan agreement for Ada Mall shopping centre under construction in Serbia. The total loan amounts to €65,000. The loan will be expired on 29 June 2029.

In December 2017, the Company issued 3-year Euro denominated bonds, listed on WSE, in the total amount of €10,104. The bonds bears a fixed interest of 3.5% p.a and the maturity date is 18 December 2020.

In December 2017, the Group refinanced Avenue Mall shopping centre in Croatia. The loan refinance the amount of the investment loan to €50,000 from €12,312. The proceeds from refinance received in January 2018. The loan will be expired on 30 November 2022.

In December 2017, the Group refinanced Galeria Północna shopping centre in Poland. The annex increase the amount of the investment loan to €200,000 from €150,000. The loan will be expired on 31 December 2024.

In 2017 bonds issued in 2012 with a nominal value of PLN 2,942,000 were subject to partial redemption in 1/3 of their nominal value on 31 October 2017 and in 1/3 of their nominal value on 2 May 2017. The Bonds will be subject to further partial redemption in 1/3 of their original nominal value on 30 April 2018 (date of full redemption).

All signed and terminated in year 2017 loan agreements are denominated in Euro and interest is based on margin plus Euribor. The Group pays interest on its long term debt and bonds on average 2.8% p.a.

Item 16. Information on contracts of which the Company is aware of (including those concluded after the balance sheet date) which could result in a change in the shareholding structure in the future

There are no contracts of which the Company is aware of (including those concluded after the balance sheet date) which could result in a change in the shareholding structure in the future.

Item 17. Proceedings before a court or public authority involving Globe Trade Centre SA or its subsidiaries the total value of the liabilities or claims of which amount to at least 10% of the Group's equity

There are no individual proceeding or group of proceedings before a court or public authority involving Globe Trade Centre SA or its subsidiaries, with the total value of liabilities or claims of 10% or more of the Company's equity.

Item 18. Material contracts signed during the year, including insurance contracts and co-operation contracts

In December 2017, the Group refinanced Galeria Północna shopping centre in Poland. The annex increase the amount of the investment loan to €200,000 from €150,000. The loan will be expired on 31 December 2024.

Item 19. Agreements with an entity certified to execute an audit of the financial statements

In November 2016, the Company entered into an agreement with Ernst & Young Audyt Polska Sp. z o.o. sp. k, with registered office on 1 Rondo ONZ, 00-124 Warsaw, for performance of the audit of the standalone financial statements of Globe Trade Centre S.A. and the consolidated financial statements of Globe Trade Centre Group for the financial year ended 31 December 2016 and 2017. In August 2017, the Company entered into an agreement with Ernst & Young Audyt Polska Sp. z o.o. sp. k for performance of the audit of the standalone financial statements of Globe Trade Centre S.A. and the consolidated financial statements of Globe Trade Centre Group for the financial year ended 31 December 2018 and 2019.

Additionally to that agreement, the Group entered into various agreements with EY in the countries of the relevant Group's subsidiaries.

The following summary presents a list of services provided by EY and remuneration for the services in the periods of 12 months ended on 31 December 2017 and 31 December 2016.

	For year ended	
	31 December 2017	**31 December 2016**
	€	€
Fee for audit and review of financial statements	560	580
Tax and other advisory services	-	26
Total	**560**	**606**

Globe Trade Centre S.A.

Report on application of the principles of corporate governance for the financial year ended 31 December 2017

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Part 1. The principles of corporate governance which the issuer is subject to and the location where the set of principles is publicly available

In July 2007, the Council of the Warsaw Stock Exchange adopted a set of principles for the corporate governance for joint-stock companies issuing shares, convertible bonds, or senior bonds that are admitted to trading on the stock exchange (the "**WSE Best Practices**"). The WSE Best Practices have been amended several times since then and were brought in line with recent legislative amendments, current international corporate governance trends, and the expectations of market participants. The last amendment took place on 13 October 2015, when the Warsaw Stock Exchange supervisory board adopted resolution approving a new code of corporate governance "Best Practice of GPW Listed Companies 2016" which came to force as at 1 January 2016 and is a base for this report on application of the principles of corporate governance for the financial year ended 31 December 2017.

The content of the WSE Best Practices is publicly available on the website of the Warsaw Stock Exchange dedicated to those issues at https://www.gpw.pl/best-practice.

Part 2. The principles of corporate governance that the issuer has waived, including the reasons for such waiver

We strive to make every possible effort to employ the corporate governance principles set out in the WSE Best Practices, and try to follow, in all areas of the Company's business, all the recommendations regarding best practices of Warsaw Stock Exchange Listed Companies and all the recommendations directed to management boards, supervisory boards and shareholders.

Additionally, so as to implement a transparent and effective information policy the Company provides fast and safe access to information for shareholders, analysts and investors, employing both traditional and modern, technologies of publishing information about the Company to the greatest extent possible.

In the year ended 31 December 2017 the Company did comply with all principles of the WSE Best Practices.

Part 3. The principal characteristics of the internal control and risk management systems used with respect to the procedure of preparing financial statements and consolidated financial statements

The management board is responsible for the Company's internal control system and its effectiveness in the process of preparing financial statements and interim reports prepared and published in accordance with the provisions of the Decree of the Finance Minister of 19 February 2009 on current and interim information provided by issuers of securities and the conditions for accepting, as equivalent, information required by the provisions of a country not being a member state.

The Company draws on its employees' extensive experience in the identification, documentation, recording and controlling of economic operations, including numerous control procedures supported by modern information technologies used for the recording, processing and presentation of operational and financial data.

In order to ensure the accuracy and reliability of the accounts of the parent and subsidiary companies, the Company applies a series of internal procedures in the area of transactional control systems and processes resulting from the activities of the Company and the capital group.

An important element of the risk management, in relation to the financial reporting process, is ongoing internal controls exercised by main accountants on the holding and subsidiaries level.

The budgetary control system is based on monthly and annual financial and operational reporting. Financial results are monitored regularly.

One of the basic elements of control in the preparation of financial statements of the Company and the Group is verification carried out by independent auditors. An auditor is chosen from a group of reputable firms which guarantee a high standard of service and independence. The supervisory board approves the choice of the auditor. The tasks of the independent auditor include, in particular: a review of semi-annual stand-alone and consolidated financial statements and audit of annual stand-alone and consolidated financial statements.

An auditor's independence is fundamental to ensuring the accuracy of an audit of books. An audit committee, appointed to the Company's supervisory board, supervises the financial reporting process in the Company, in co-operation with the independent auditor, who participates in the audit committee meetings. The audit committee oversees the financial reporting process, in order to ensure sustainability, transparency and integrity of financial information. The audit committee includes one member of the supervisory board who meets the independence criteria set out in the Best Practices of WSE Listed Companies. The audit committee reports to the supervisory board.

Moreover, under Article 4a of the Act of 29 September 1994 on accounting, the duties of the supervisory board include ensuring that the financial statements and the report of the Company's operations meet the requirements of the law, and the supervisory board carries out this duty, using the powers under the law and the articles of association of the Company. This is yet another level of control exercised by an independent body to ensure the accuracy and reliability of the information presented in the separate and consolidated financial statements.

Part 4. Shareholders who, directly or indirectly, have substantial shareholding, including the number of shares held by them, the percentage share in the share capital, and the number of votes attached to their shares in the overall number of votes at the general meeting

In May 2017, the Company's shareholders meeting decided on the dividend payout in cash or in shares. Following this decision it also adopted a resolution regarding the issuance of the Series L Shares. It enabled the Company's shareholders to elect to receive the dividend payable by the Company in the form of newly issued shares instead of cash. As a result in June 2017, the Company issued 10,087,026 series L Shares to the Company's shareholders, who chose the dividend in the form of shares.

The following table presents the Company's shareholders, who had no less than 5% of votes at the Ordinary Shareholders Meeting of GTC S.A., as of the date of 31 December 2017. The table is prepared based on information received directly from the shareholders.

Shareholder	Number of shares and rights to the shares held (not in thousand)	% of share capital	Number of votes (not in thousand)	% of votes	Change in number of shares since 15 May 2017 (not in thousand)
LSREF III GTC Investments B.V.[1]	287,516,755	61.13%	287,516,755	61.13%	An increase of 8,667,098
OFE PZU Złota Jesień	48,648,000	10.34%	48,648,000	10.34%	An increase of 801,000
AVIVA OFE Aviva BZ WBK	34,413,161	7.32%	34,413,161	7.32%	An increase of 1,491,161
Other shareholders	99,725,588	21.20%	99,725,588	21.20%	A decrease of 872,233
Total	**470,303,504**	**100.00%**	**470,303,504**	**100.00%**	

[1]LSREF III GTC Investments B.V. is related to Lone Star Real Estate Partners III L.P.

Part 5. Holders of any securities that grant special rights of control, including a description of such rights

There are no special rights of control that would be attached to any securities in Globe Trade Centre S.A.

Part 6. Restrictions concerning the exercise of voting rights, such as restriction of the exercise of voting rights by holders of any specific part or number of votes, time restrictions concerning the exercise of voting rights or regulations whereunder, with the co-operation of the company, the equity rights related to the securities are separate from holding securities

There are no restrictions applicable to the exercise of voting rights such as restriction of the exercise of voting rights by holders of any specific part or number of shares, any time restrictions applicable to the exercise of voting rights or regulations whereunder, with the co-operation of Globe Trade Centre S.A., the equity rights related to securities would be separate from holding securities.

Part 7. Restrictions concerning transfer of the ownership title to securities in Globe Trade Centre S.A.

There are no limitations of transfer of ownership title to securities, except for those limitations that are resulting from the general provisions of the law, in particular contractual limitations regarding the transfer of the ownership rights to the securities issued by the Company.

Part 8. Rules concerning the appointment and dismissal of management and the rights thereof, specifically the right to make decisions concerning the issuance and redemption of shares.

Pursuant to Art. 10 the Company's statute the management board consist of one to seven members, appointed by the supervisory board for a three-year term.

Additionally, the supervisory board designates the president of the management board and deputy thereof.

The management board of the Company is responsible for the Company's day-to-day management and for its representation in dealing with third parties. All issues related to the Company's operations are in the scope of activities of the management board, unless they are specified as the competence of the supervisory board or the general meeting by the provisions of applicable law or the articles of association.

Members of the management board participate, in particular, in general meetings and provide answers to questions asked during general meetings. Moreover, members of the management board invited to a supervisory board meeting by the chairman of the supervisory board participate in such meeting, with a right to voice their opinion on issues on the agenda.

The general meeting takes decisions regarding the issuance or buying back of shares in the Company. The competencies of the management board in the scope are limited to execution of any resolutions adopted by the general meeting.

Part 9. Overview of the procedure of amending the Company's articles of association

A change to the Company's articles of association require a resolution of the general meeting and an entry into the Court register. The general provisions of law and the articles of association govern the procedure of adopting resolutions regarding changes to the articles of association.

Part 10. The bylaws of the general meeting and its principal rights and description of rights of shareholders and their exercise, in particular the rules resulting from the bylaws of the general meeting, unless information on that scope results directly from the provisions of law

The general meeting acts pursuant to the provisions of the Polish Commercial Companies Code and the articles of association.

The general meeting adopts resolutions regarding, in particular, the following issues:

a) discussion and approval of reports of the management board and the financial statements for the previous year,

b) decision about allocation of profits or covering of debts,

c) signing off for the performance of duties for the supervisory board and the management board,

d) determination of the supervisory board remuneration,

e) changes to the articles of association of the Company,

g) increase or decrease in the share capital,

h) merger or transformation of the Company,

i) dissolution or liquidation of the Company,

j) issuance of bonds,

k) sale or lease of the Company and the establishment of a right of use or sale of the Company's enterprise,

l) all decisions regarding claims for damages upon establishment of the Company, or the performance of management or supervision.

A general meeting can be attended by persons who are shareholders of the Company sixteen days before the date of the general meeting (the day of registration for participation in the general meeting).

A shareholder who is natural person is entitled to participate in general meetings and execute voting rights in person or through a proxy. A shareholder which is a legal entity is entitled to participate in general meetings and execute voting rights through a person authorized to forward statements of will on their behalf or through a proxy.

A power of attorney to attend a general meeting and exercise voting rights must be in written or electronic form. For the purposes of identification of the shareholder who granted the power of attorney, a notice on the granting of such power of attorney electronically should contain (as a schedule):

- if the shareholder is an individual, a copy of an identity card, passport or any other official identification document confirming the identity of the shareholder; or

- if the shareholder is not an individual, a copy of an extract from a relevant register or any other document confirming the authorisation of the individual(s) to represent the shareholder at the general meeting (e.g. an uninterrupted chain of powers of attorney).

The general meeting may be attended by members of the management board and supervisory board (in a composition which allows for substantive answers to the questions asked during the general meeting) and by the auditor of the Company, if the general meeting is held to discuss financial matters.

At the general meeting each participant is entitled to be elected the chairman of the general meeting, and also nominate one person as a candidate for the position of chairman of the general meeting. Until election of the chairman the general meeting may not take any decisions.

The chairman of the general meeting directs proceedings in accordance with the agreed agenda, provisions of law, the articles of association, and, in particular: gives the floor to speakers, orders votes and announces the results thereof. The chairman ensures efficient proceedings and respecting of the rights and interests of all shareholders.

After the creation and signing of the attendance list, the chairman confirms that the general meeting has been called in the correct manner and is authorized to pass resolutions.

The chairman of the general meeting closes the general meeting upon the exhausting of its agenda.

Part 11. Personnel composition and changes in the previous business year and description of the functioning of the management, supervisory, or administrative bodies of the Company and its committees.

The management board

Currently, the management board is composed of two members. During 2017, there was no change in the composition of the management board.

Composition of the management board

The following table presents the names, surnames, functions, dates of appointment and dates of expiry of the current term of the members of the management board as at 31 December 2017:

Name and surname	Function	Year of first appointment	Year of appointment for the current term	Year of expiry of term
Thomas Kurzmann	President of the management board	2014	2017	2020
Erez Boniel	Member of the management board	1997	2015	2018

Description of operations of the management board

The management board runs the Company's business in a transparent and efficient way pursuant to the provisions of applicable law, its internal provisions and the "Best Practices of WSE Listed Companies". When taking decisions related to the Company's business, the members of the management board act within limits of justified business risk.

The two members of management board acting jointly are entitled to make representations on the Company's behalf.

All issues related to the management of the Company which are not specified by the provisions of applicable law or the articles of association as competences of the supervisory board or the general meeting are within the scope of competence of the management board.

Members of the management board participate in sessions of the general meeting and provide substantive answers to questions asked during the general meeting. Members of the management board invited to a meeting of the supervisory board by the chairman of the supervisory board participate in such meeting with the right to take the floor regarding issues on the agenda. Members of the management board are required to, within their scope of competence and the scope necessary to settle issues discussed by the supervisory board, submit explanations and information regarding the Company's business to the participants of a meeting of the supervisory board.

The management board makes any decisions considered (by the management board) to be important for the company by passing resolutions at meetings thereof. Such resolutions are passed by simple majority.

Moreover, the management board may adopt resolutions in writing or via a manner enabling instantaneous communication between the members of the management board by means of audio-video communication (e.g. teleconferencing, videoconferencing, etc).

The supervisory board

As of 31 December 2017, the supervisory board comprises eight members. During 2017, the following changes in the composition of the supervisory board took place:

- on 21 September 2017, Tomasz Styczyński submitted his resignations from position of a member of the Supervisory Board of the Company with immediate effect. (see current report no 27/2017);

- Powszechne Towarzystwo Emerytalne PZU SA, with its registered seat in Warsaw, acting on behalf of Otwarty Fundusz Emerytalny PZU "Złota Jesień", has appointed Ryszard Wawryniewicz to the Company's Supervisory Board for a three-year term of office commencing on 26 September 2017 (see current report no 28/2017).

Currently, the supervisory board comprises nine members. On 23 February 2018 LSREF III GTC Investments B.V., appoints Mr. Olivier Brahin as a member of the supervisory board of the Company, effective 1 March 2018.

The composition of the supervisory board

The following table presents the names, surnames, functions, dates of appointment and dates of expiry of the current term of the members of the supervisory board as at 31 December 2017:

Name and surname	Function	Year of first appointment	Year of appointment for the current term	Year of expiry of term
Alexander Hesse	Chairman of the supervisory board	2013	2016	2019
Philippe Couturier	Member of the supervisory board	2013	2016	2019
Jan Düdden	Member of the supervisory board	2014	2017	2020
Mariusz Grendowicz	Member of the supervisory board	2000	2016	2019
Ryszard Koper [1]	Independent member of the supervisory board	2016	2016	2019
Marcin Murawski [1]	Independent member of the supervisory board	2013	2016	2019
Katharina Schade	Member of the supervisory board	2013	2016	2019
Ryszard Wawryniewicz [1]	Independent member of the supervisory board	2017	2017	2020

[1] conforms with the independence criteria listed in the Best Practices of WSE Listed Companies

Description of the operations of the supervisory board

The supervisory board acts pursuant to the Polish Commercial Companies Code and also pursuant to the articles of association of the Company and the supervisory board regulations dated 16 May 2017.

Pursuant to the articles of association of the Company, the supervisory board performs constant supervision over activities of the enterprise. Within the scope of its supervisory activities, the supervisory board may demand any information and documents regarding the Company's business from the management board.

Members of the supervisory board are required to take necessary steps to receive regular and full information from the management board regarding material matters concerning the Company's

business and risks involved in the business and the strategies of risk management. The supervisory board may (while not infringing the competencies of other bodies of the Company) express their opinion on all the issues related to the Company's business, including forwarding motions and proposals to the management board.

In addition to the matters defined in the Polish Commercial Companies Code the following are the competencies of the supervisory board:

a) The establishment of remuneration and commissions for the members of the Company`s Management Board and representing the Company when executing agreements with Management Board members and in any disputes with Management Board members

b) Giving consent for the Company or one of its Subsidiaries to execute an agreement or agreements with an Affiliate or with a member of the Company's management board or supervisory board or with a member of the management or supervisory authorities of an Affiliate. Such consent is not be required for transactions with companies in which the Company holds, directly or indirectly, shares entitling it to at least 50% of votes at shareholders' meetings, if such transaction results in obligations of the other shareholders of such companies proportional to their stake in that company, or if the difference between the financial obligations of the Company and the other shareholders does not exceed EUR 5 million. In the articles of association indirect ownership of shares entitling the holder thereof to at least 50% of the votes at a shareholders' meeting means possession of such number of shares that entitles the holder thereof to at least 50% of votes in each of the indirectly held companies in the chain of subsidiaries.

c) Giving approval to any change of the auditor selected by the Company's management board to audit the Company's financial statements.

d) Expressing consent for the Company or one of its Subsidiaries to: (i) execute transaction comprising the acquisition or sale of investment assets of any kind the value of which exceeds EUR 30million; (ii) issue a guarantee for an amount exceeding EUR 20 million; or (iii) execute any transaction (in the form of a single legal act or a number of legal acts) other than those set forth in preceding points (i) or (ii) where the value of such transaction exceeds EUR 20 million. For the avoidance of doubt, consent is required for the Company's management board to vote on the Company's behalf at a meeting of the shareholders of a Company's Subsidiary authorizing transactions meeting above criteria.

For the purposes of this competencies and articles of association:

a) an entity is an "Affiliate", if it is (i) a Dominating Entity with respect to the Company, or (ii) a Subsidiary of the Company; or (iii) a Subsidiary of a Dominating Entity of the Company; or (iv) a Subsidiary of the Company's Dominating Entity other than the Company' Subsidiary; or (v) a Subsidiary of any member of managing or supervisory authorities of the Company or any of the entities designated in (i) through (iii);

b) an entity is a "Subsidiary" of any other entity (the "Dominating Entity") if the Dominating Entity: (i) has the right to exercise the majority of votes in the governing bodies of the Subsidiary, including on the basis of understandings with other authorised entities, or (ii) is authorised to

take decisions regarding financial policies and current commercial operations of the Subsidiary on the basis of any law, statute or agreement, or (iii) is authorised to appoint or dismiss the majority of members of managing authorities of the Subsidiary, or (iv) more than half of the members of the Subsidiary's management board are also members of the management board or persons performing any management functions at the Dominating Entity or any other Subsidiary.

The supervisory board consists of five to twenty members, including the Chairman of the supervisory board. Each shareholder who holds individually more than 5% of shares in the Company's share capital (the "Initial Threshold") is entitled to appoint one supervisory board member. Shareholders are further entitled to appoint one additional supervisory board member for each block of held shares constituting 5% of the Company's share capital above the Initial Threshold. Supervisory board members are appointed by a written notice of entitled shareholders given to the chairman of the general meeting at the general meeting or outside the general meeting delivered to the management board along with a written statement from the selected person that he/she agrees to be appointed to the supervisory board.

The number of supervisory board members is equal to the number of members appointed by the entitled shareholders, increased by one independent member, provided that in each case such number may not be lower than five.

Under the Company's articles of association, the supervisory board should consist of at least one member meeting the criteria of an independent member of the supervisory board as set out in the corporate governance regulations included in the Best Practices of Warsaw Stock Exchange listed Companies.

The chairman of the supervisory board calls meetings of the supervisory board. The chairman calls meetings of the supervisory board upon the request of a member of the management board or a member of the supervisory board therefore. A meeting of the supervisory board must take place within 14 days of the date of filing a written application therefore with the Chairman.

The supervisory board may convene meetings both within the territory of the Republic of Poland and abroad. Supervisory board meetings may be held via telephone, provided that all the participants thereof are able to communicate simultaneously. All resolutions adopted at such meetings are valid, provided that the attendance register is signed by the supervisory board members who participated in such meeting. The place where the Chairman attends such meeting is considered as the place where the meeting was held.

Unless the articles of association provide otherwise, resolutions of the supervisory board are adopted by absolute majority of votes cast in the presence of at least five supervisory board members. In the event of a tie, the Chairman has a casting vote.

Members of the supervisory board execute their rights and perform their duties in person. Members of the supervisory board may participate in general meetings.

Moreover, within the performance of their duties, the supervisory board is required to:

a) once a year prepare and present to the general meeting a concise evaluation of the situation of the Company, taking into account the evaluation of the internal control system and the management system of risks that are important for the Company,

b) once a year prepare and present to the annual general meeting an evaluation of its own performance,

c) discuss and issue opinions on matters which are to be subject of the resolutions of the general meeting.

Committees of the supervisory board

The supervisory board may appoint committees to investigate certain issues which are in the competence of the supervisory board or to act as advisory and opinion bodies to the supervisory board.

The supervisory board has appointed the Audit Committee, whose principal task is to make administrative reviews, to exercise financial control, and to oversee financial reporting as well as internal and external audit procedures at the Company and at the companies in its group. As of 31 December 2017, the members of the Audit Committee were Marcin Murawski, Ryszard Koper and Mariusz Grendowicz.

The supervisory board has appointed the Remuneration Committee of the Supervisory Board, which has no decision-making authority and which is responsible for making recommendations to the supervisory board with respect to the remuneration of the members of the management board and the policies for setting such remuneration. As of 31 December 2017, the members of the Remuneration Committee were Alexander Hesse, Marcin Murawski and Mariusz Grendowicz.

Part 12. Diversity policy in terms of the management, supervisory, or administrative bodies of the Company.

The strategic objective of our diversity policy is to recruit and retain such workforce as to ensure delivery of the GTC Group's business objectives. The priority of diversity policy is to build a sense of trust between the management and other employees, and to treat everyone fairly regardless of their position.

The Company's diversity policy is centered on respecting the employees as an element of diversity-oriented culture regardless of gender, age, education and cultural heritage. It includes integrating employees in their workplace and ensuring that all employees are treated equally at work. The Company supports various social initiatives, which promote equal opportunities. Additionally, the Company joins charitable activities initiated by the employees. The principles of equal treatment at the workplace have been reflected in the company's bylaws, which are available to all employees. The Company values its enriched diversity policy in pursuing its goals.

Globe Trade Centre S.A.

Report on application of the principles of corporate governance for the financial year ended 31 December 2017

Table of contents

Part 1. The principles of corporate governance which the issuer is subject to and the location where the set of principles is publicly available

In July 2007, the Council of the Warsaw Stock Exchange adopted a set of principles for the corporate governance for joint-stock companies issuing shares, convertible bonds, or senior bonds that are admitted to trading on the stock exchange (the "**WSE Best Practices**"). The WSE Best Practices have been amended several times since then and were brought in line with recent legislative amendments, current international corporate governance trends, and the expectations of market participants. The last amendment took place on 13 October 2015, when the Warsaw Stock Exchange supervisory board adopted resolution approving a new code of corporate governance "Best Practice of GPW Listed Companies 2016" which came to force as at 1 January 2016 and is a base for this report on application of the principles of corporate governance for the financial year ended 31 December 2017.

The content of the WSE Best Practices is publicly available on the website of the Warsaw Stock Exchange dedicated to those issues at https://www.gpw.pl/best-practice.

Part 2. The principles of corporate governance that the issuer has waived, including the reasons for such waiver

We strive to make every possible effort to employ the corporate governance principles set out in the WSE Best Practices, and try to follow, in all areas of the Company's business, all the recommendations regarding best practices of Warsaw Stock Exchange Listed Companies and all the recommendations directed to management boards, supervisory boards and shareholders.

Additionally, so as to implement a transparent and effective information policy the Company provides fast and safe access to information for shareholders, analysts and investors, employing both traditional and modern, technologies of publishing information about the Company to the greatest extent possible.

In the year ended 31 December 2017 the Company did comply with all principles of the WSE Best Practices.

Part 3. The principal characteristics of the internal control and risk management systems used with respect to the procedure of preparing financial statements and consolidated financial statements

The management board is responsible for the Company's internal control system and its effectiveness in the process of preparing financial statements and interim reports prepared and published in accordance with the provisions of the Decree of the Finance Minister of 19 February 2009 on current and interim information provided by issuers of securities and the conditions for accepting, as equivalent, information required by the provisions of a country not being a member state.

The Company draws on its employees' extensive experience in the identification, documentation, recording and controlling of economic operations, including numerous control procedures supported by modern information technologies used for the recording, processing and presentation of operational and financial data.

In order to ensure the accuracy and reliability of the accounts of the parent and subsidiary companies, the Company applies a series of internal procedures in the area of transactional control systems and processes resulting from the activities of the Company and the capital group.

An important element of the risk management, in relation to the financial reporting process, is ongoing internal controls exercised by main accountants on the holding and subsidiaries level.

The budgetary control system is based on monthly and annual financial and operational reporting. Financial results are monitored regularly.

One of the basic elements of control in the preparation of financial statements of the Company and the Group is verification carried out by independent auditors. An auditor is chosen from a group of reputable firms which guarantee a high standard of service and independence. The supervisory board approves the choice of the auditor. The tasks of the independent auditor include, in particular: a review of semi-annual stand-alone and consolidated financial statements and audit of annual stand-alone and consolidated financial statements.

An auditor's independence is fundamental to ensuring the accuracy of an audit of books. An audit committee, appointed to the Company's supervisory board, supervises the financial reporting process in the Company, in co-operation with the independent auditor, who participates in the audit committee meetings. The audit committee oversees the financial reporting process, in order to ensure sustainability, transparency and integrity of financial information. The audit committee includes one member of the supervisory board who meets the independence criteria set out in the Best Practices of WSE Listed Companies. The audit committee reports to the supervisory board.

Moreover, under Article 4a of the Act of 29 September 1994 on accounting, the duties of the supervisory board include ensuring that the financial statements and the report of the Company's operations meet the requirements of the law, and the supervisory board carries out this duty, using the powers under the law and the articles of association of the Company. This is yet another level of control exercised by an independent body to ensure the accuracy and reliability of the information presented in the separate and consolidated financial statements.

Part 4. Shareholders who, directly or indirectly, have substantial shareholding, including the number of shares held by them, the percentage share in the share capital, and the number of votes attached to their shares in the overall number of votes at the general meeting

In May 2017, the Company's shareholders meeting decided on the dividend payout in cash or in shares. Following this decision it also adopted a resolution regarding the issuance of the Series L Shares. It enabled the Company's shareholders to elect to receive the dividend payable by the Company in the form of newly issued shares instead of cash. As a result in June 2017, the Company issued 10,087,026 series L Shares to the Company's shareholders, who chose the dividend in the form of shares.

The following table presents the Company's shareholders, who had no less than 5% of votes at the Ordinary Shareholders Meeting of GTC S.A., as of the date of 31 December 2017. The table is prepared based on information received directly from the shareholders.

Shareholder	Number of shares and rights to the shares held (not in thousand)	% of share capital	Number of votes (not in thousand)	% of votes	Change in number of shares since 15 May 2017 (not in thousand)
LSREF III GTC Investments B.V.[1]	287,516,755	61.13%	287,516,755	61.13%	An increase of 8,667,098
OFE PZU Złota Jesień	48,648,000	10.34%	48,648,000	10.34%	An increase of 801,000
AVIVA OFE Aviva BZ WBK	34,413,161	7.32%	34,413,161	7.32%	An increase of 1,491,161
Other shareholders	99,725,588	21.20%	99,725,588	21.20%	A decrease of 872,233
Total	**470,303,504**	**100.00%**	**470,303,504**	**100.00%**	

[1]LSREF III GTC Investments B.V. is related to Lone Star Real Estate Partners III L.P.

Part 5. Holders of any securities that grant special rights of control, including a description of such rights

There are no special rights of control that would be attached to any securities in Globe Trade Centre S.A.

Part 6. Restrictions concerning the exercise of voting rights, such as restriction of the exercise of voting rights by holders of any specific part or number of votes, time restrictions concerning the exercise of voting rights or regulations whereunder, with the co-operation of the company, the equity rights related to the securities are separate from holding securities

There are no restrictions applicable to the exercise of voting rights such as restriction of the exercise of voting rights by holders of any specific part or number of shares, any time restrictions applicable to the exercise of voting rights or regulations whereunder, with the co-operation of Globe Trade Centre S.A., the equity rights related to securities would be separate from holding securities.

Part 7. Restrictions concerning transfer of the ownership title to securities in Globe Trade Centre S.A.

There are no limitations of transfer of ownership title to securities, except for those limitations that are resulting from the general provisions of the law, in particular contractual limitations regarding the transfer of the ownership rights to the securities issued by the Company.

Part 8. Rules concerning the appointment and dismissal of management and the rights thereof, specifically the right to make decisions concerning the issuance and redemption of shares.

Pursuant to Art. 10 the Company's statute the management board consist of one to seven members, appointed by the supervisory board for a three-year term.

Additionally, the supervisory board designates the president of the management board and deputy thereof.

The management board of the Company is responsible for the Company's day-to-day management and for its representation in dealing with third parties. All issues related to the Company's operations are in the scope of activities of the management board, unless they are specified as the competence of the supervisory board or the general meeting by the provisions of applicable law or the articles of association.

Members of the management board participate, in particular, in general meetings and provide answers to questions asked during general meetings. Moreover, members of the management board invited to a supervisory board meeting by the chairman of the supervisory board participate in such meeting, with a right to voice their opinion on issues on the agenda.

The general meeting takes decisions regarding the issuance or buying back of shares in the Company. The competencies of the management board in the scope are limited to execution of any resolutions adopted by the general meeting.

Part 9. Overview of the procedure of amending the Company's articles of association

A change to the Company's articles of association require a resolution of the general meeting and an entry into the Court register. The general provisions of law and the articles of association govern the procedure of adopting resolutions regarding changes to the articles of association.

Part 10. The bylaws of the general meeting and its principal rights and description of rights of shareholders and their exercise, in particular the rules resulting from the bylaws of the general meeting, unless information on that scope results directly from the provisions of law

The general meeting acts pursuant to the provisions of the Polish Commercial Companies Code and the articles of association.

The general meeting adopts resolutions regarding, in particular, the following issues:

a) discussion and approval of reports of the management board and the financial statements for the previous year,

b) decision about allocation of profits or covering of debts,

c) signing off for the performance of duties for the supervisory board and the management board,

d) determination of the supervisory board remuneration,

e) changes to the articles of association of the Company,

g) increase or decrease in the share capital,

h) merger or transformation of the Company,

i) dissolution or liquidation of the Company,

j) issuance of bonds,

k) sale or lease of the Company and the establishment of a right of use or sale of the Company's enterprise,

l) all decisions regarding claims for damages upon establishment of the Company, or the performance of management or supervision.

A general meeting can be attended by persons who are shareholders of the Company sixteen days before the date of the general meeting (the day of registration for participation in the general meeting).

A shareholder who is natural person is entitled to participate in general meetings and execute voting rights in person or through a proxy. A shareholder which is a legal entity is entitled to participate in general meetings and execute voting rights through a person authorized to forward statements of will on their behalf or through a proxy.

A power of attorney to attend a general meeting and exercise voting rights must be in written or electronic form. For the purposes of identification of the shareholder who granted the power of attorney, a notice on the granting of such power of attorney electronically should contain (as a schedule):

- if the shareholder is an individual, a copy of an identity card, passport or any other official identification document confirming the identity of the shareholder; or

- if the shareholder is not an individual, a copy of an extract from a relevant register or any other document confirming the authorisation of the individual(s) to represent the shareholder at the general meeting (e.g. an uninterrupted chain of powers of attorney).

The general meeting may be attended by members of the management board and supervisory board (in a composition which allows for substantive answers to the questions asked during the general meeting) and by the auditor of the Company, if the general meeting is held to discuss financial matters.

At the general meeting each participant is entitled to be elected the chairman of the general meeting, and also nominate one person as a candidate for the position of chairman of the general meeting. Until election of the chairman the general meeting may not take any decisions.

The chairman of the general meeting directs proceedings in accordance with the agreed agenda, provisions of law, the articles of association, and, in particular: gives the floor to speakers, orders votes and announces the results thereof. The chairman ensures efficient proceedings and respecting of the rights and interests of all shareholders.

After the creation and signing of the attendance list, the chairman confirms that the general meeting has been called in the correct manner and is authorized to pass resolutions.

The chairman of the general meeting closes the general meeting upon the exhausting of its agenda.

Part 11. Personnel composition and changes in the previous business year and description of the functioning of the management, supervisory, or administrative bodies of the Company and its committees.

The management board

Currently, the management board is composed of two members. During 2017, there was no change in the composition of the management board.

Composition of the management board

The following table presents the names, surnames, functions, dates of appointment and dates of expiry of the current term of the members of the management board as at 31 December 2017:

Name and surname	Function	Year of first appointment	Year of appointment for the current term	Year of expiry of term
Thomas Kurzmann	President of the management board	2014	2017	2020
Erez Boniel	Member of the management board	1997	2015	2018

Description of operations of the management board

The management board runs the Company's business in a transparent and efficient way pursuant to the provisions of applicable law, its internal provisions and the "Best Practices of WSE Listed Companies". When taking decisions related to the Company's business, the members of the management board act within limits of justified business risk.

The two members of management board acting jointly are entitled to make representations on the Company's behalf.

All issues related to the management of the Company which are not specified by the provisions of applicable law or the articles of association as competences of the supervisory board or the general meeting are within the scope of competence of the management board.

Members of the management board participate in sessions of the general meeting and provide substantive answers to questions asked during the general meeting. Members of the management board invited to a meeting of the supervisory board by the chairman of the supervisory board participate in such meeting with the right to take the floor regarding issues on the agenda. Members of the management board are required to, within their scope of competence and the scope necessary to settle issues discussed by the supervisory board, submit explanations and information regarding the Company's business to the participants of a meeting of the supervisory board.

The management board makes any decisions considered (by the management board) to be important for the company by passing resolutions at meetings thereof. Such resolutions are passed by simple majority.

Moreover, the management board may adopt resolutions in writing or via a manner enabling instantaneous communication between the members of the management board by means of audio-video communication (e.g. teleconferencing, videoconferencing, etc).

The supervisory board

As of 31 December 2017, the supervisory board comprises eight members. During 2017, the following changes in the composition of the supervisory board took place:

- on 21 September 2017, Tomasz Styczyński submitted his resignations from position of a member of the Supervisory Board of the Company with immediate effect. (see current report no 27/2017);

- Powszechne Towarzystwo Emerytalne PZU SA, with its registered seat in Warsaw, acting on behalf of Otwarty Fundusz Emerytalny PZU "Złota Jesień", has appointed Ryszard Wawryniewicz to the Company's Supervisory Board for a three-year term of office commencing on 26 September 2017 (see current report no 28/2017).

Currently, the supervisory board comprises nine members. On 23 February 2018 LSREF III GTC Investments B.V., appoints Mr. Olivier Brahin as a member of the supervisory board of the Company, effective 1 March 2018.

The composition of the supervisory board

The following table presents the names, surnames, functions, dates of appointment and dates of expiry of the current term of the members of the supervisory board as at 31 December 2017:

Name and surname	Function	Year of first appointment	Year of appointment for the current term	Year of expiry of term
Alexander Hesse	Chairman of the supervisory board	2013	2016	2019
Philippe Couturier	Member of the supervisory board	2013	2016	2019
Jan Düdden	Member of the supervisory board	2014	2017	2020
Mariusz Grendowicz	Member of the supervisory board	2000	2016	2019
Ryszard Koper [1]	Independent member of the supervisory board	2016	2016	2019
Marcin Murawski [1]	Independent member of the supervisory board	2013	2016	2019
Katharina Schade	Member of the supervisory board	2013	2016	2019
Ryszard Wawryniewicz [1]	Independent member of the supervisory board	2017	2017	2020

[1] conforms with the independence criteria listed in the Best Practices of WSE Listed Companies

Description of the operations of the supervisory board

The supervisory board acts pursuant to the Polish Commercial Companies Code and also pursuant to the articles of association of the Company and the supervisory board regulations dated 16 May 2017.

Pursuant to the articles of association of the Company, the supervisory board performs constant supervision over activities of the enterprise. Within the scope of its supervisory activities, the supervisory board may demand any information and documents regarding the Company's business from the management board.

Members of the supervisory board are required to take necessary steps to receive regular and full information from the management board regarding material matters concerning the Company's

business and risks involved in the business and the strategies of risk management. The supervisory board may (while not infringing the competencies of other bodies of the Company) express their opinion on all the issues related to the Company's business, including forwarding motions and proposals to the management board.

In addition to the matters defined in the Polish Commercial Companies Code the following are the competencies of the supervisory board:

a) The establishment of remuneration and commissions for the members of the Company`s Management Board and representing the Company when executing agreements with Management Board members and in any disputes with Management Board members

b) Giving consent for the Company or one of its Subsidiaries to execute an agreement or agreements with an Affiliate or with a member of the Company's management board or supervisory board or with a member of the management or supervisory authorities of an Affiliate. Such consent is not be required for transactions with companies in which the Company holds, directly or indirectly, shares entitling it to at least 50% of votes at shareholders' meetings, if such transaction results in obligations of the other shareholders of such companies proportional to their stake in that company, or if the difference between the financial obligations of the Company and the other shareholders does not exceed EUR 5 million. In the articles of association indirect ownership of shares entitling the holder thereof to at least 50% of the votes at a shareholders' meeting means possession of such number of shares that entitles the holder thereof to at least 50% of votes in each of the indirectly held companies in the chain of subsidiaries.

c) Giving approval to any change of the auditor selected by the Company's management board to audit the Company's financial statements.

d) Expressing consent for the Company or one of its Subsidiaries to: (i) execute transaction comprising the acquisition or sale of investment assets of any kind the value of which exceeds EUR 30million; (ii) issue a guarantee for an amount exceeding EUR 20 million; or (iii) execute any transaction (in the form of a single legal act or a number of legal acts) other than those set forth in preceding points (i) or (ii) where the value of such transaction exceeds EUR 20 million. For the avoidance of doubt, consent is required for the Company's management board to vote on the Company's behalf at a meeting of the shareholders of a Company's Subsidiary authorizing transactions meeting above criteria.

For the purposes of this competencies and articles of association:

a) an entity is an "Affiliate", if it is (i) a Dominating Entity with respect to the Company, or (ii) a Subsidiary of the Company; or (iii) a Subsidiary of a Dominating Entity of the Company; or (iv) a Subsidiary of the Company's Dominating Entity other than the Company' Subsidiary; or (v) a Subsidiary of any member of managing or supervisory authorities of the Company or any of the entities designated in (i) through (iii);

b) an entity is a "Subsidiary" of any other entity (the "Dominating Entity") if the Dominating Entity: (i) has the right to exercise the majority of votes in the governing bodies of the Subsidiary, including on the basis of understandings with other authorised entities, or (ii) is authorised to

take decisions regarding financial policies and current commercial operations of the Subsidiary on the basis of any law, statute or agreement, or (iii) is authorised to appoint or dismiss the majority of members of managing authorities of the Subsidiary, or (iv) more than half of the members of the Subsidiary's management board are also members of the management board or persons performing any management functions at the Dominating Entity or any other Subsidiary.

The supervisory board consists of five to twenty members, including the Chairman of the supervisory board. Each shareholder who holds individually more than 5% of shares in the Company's share capital (the "Initial Threshold") is entitled to appoint one supervisory board member. Shareholders are further entitled to appoint one additional supervisory board member for each block of held shares constituting 5% of the Company's share capital above the Initial Threshold. Supervisory board members are appointed by a written notice of entitled shareholders given to the chairman of the general meeting at the general meeting or outside the general meeting delivered to the management board along with a written statement from the selected person that he/she agrees to be appointed to the supervisory board.

The number of supervisory board members is equal to the number of members appointed by the entitled shareholders, increased by one independent member, provided that in each case such number may not be lower than five.

Under the Company's articles of association, the supervisory board should consist of at least one member meeting the criteria of an independent member of the supervisory board as set out in the corporate governance regulations included in the Best Practices of Warsaw Stock Exchange listed Companies.

The chairman of the supervisory board calls meetings of the supervisory board. The chairman calls meetings of the supervisory board upon the request of a member of the management board or a member of the supervisory board therefore. A meeting of the supervisory board must take place within 14 days of the date of filing a written application therefore with the Chairman.

The supervisory board may convene meetings both within the territory of the Republic of Poland and abroad. Supervisory board meetings may be held via telephone, provided that all the participants thereof are able to communicate simultaneously. All resolutions adopted at such meetings are valid, provided that the attendance register is signed by the supervisory board members who participated in such meeting. The place where the Chairman attends such meeting is considered as the place where the meeting was held.

Unless the articles of association provide otherwise, resolutions of the supervisory board are adopted by absolute majority of votes cast in the presence of at least five supervisory board members. In the event of a tie, the Chairman has a casting vote.

Members of the supervisory board execute their rights and perform their duties in person. Members of the supervisory board may participate in general meetings.

Moreover, within the performance of their duties, the supervisory board is required to:

a) once a year prepare and present to the general meeting a concise evaluation of the situation of the Company, taking into account the evaluation of the internal control system and the management system of risks that are important for the Company,

b) once a year prepare and present to the annual general meeting an evaluation of its own performance,

c) discuss and issue opinions on matters which are to be subject of the resolutions of the general meeting.

Committees of the supervisory board

The supervisory board may appoint committees to investigate certain issues which are in the competence of the supervisory board or to act as advisory and opinion bodies to the supervisory board.

The supervisory board has appointed the Audit Committee, whose principal task is to make administrative reviews, to exercise financial control, and to oversee financial reporting as well as internal and external audit procedures at the Company and at the companies in its group. As of 31 December 2017, the members of the Audit Committee were Marcin Murawski, Ryszard Koper and Mariusz Grendowicz.

The supervisory board has appointed the Remuneration Committee of the Supervisory Board, which has no decision-making authority and which is responsible for making recommendations to the supervisory board with respect to the remuneration of the members of the management board and the policies for setting such remuneration. As of 31 December 2017, the members of the Remuneration Committee were Alexander Hesse, Marcin Murawski and Mariusz Grendowicz.

Part 12. Diversity policy in terms of the management, supervisory, or administrative bodies of the Company.

The strategic objective of our diversity policy is to recruit and retain such workforce as to ensure delivery of the GTC Group's business objectives. The priority of diversity policy is to build a sense of trust between the management and other employees, and to treat everyone fairly regardless of their position.

The Company's diversity policy is centered on respecting the employees as an element of diversity-oriented culture regardless of gender, age, education and cultural heritage. It includes integrating employees in their workplace and ensuring that all employees are treated equally at work. The Company supports various social initiatives, which promote equal opportunities. Additionally, the Company joins charitable activities initiated by the employees. The principles of equal treatment at the workplace have been reflected in the company's bylaws, which are available to all employees. The Company values its enriched diversity policy in pursuing its goals.

Globe Trade Centre S.A.

Report on application of the principles of corporate governance for the financial year ended 31 December 2017

Table of contents

Part 1. The principles of corporate governance which the issuer is subject to and the location where the set of principles is publicly available

In July 2007, the Council of the Warsaw Stock Exchange adopted a set of principles for the corporate governance for joint-stock companies issuing shares, convertible bonds, or senior bonds that are admitted to trading on the stock exchange (the "**WSE Best Practices**"). The WSE Best Practices have been amended several times since then and were brought in line with recent legislative amendments, current international corporate governance trends, and the expectations of market participants. The last amendment took place on 13 October 2015, when the Warsaw Stock Exchange supervisory board adopted resolution approving a new code of corporate governance "Best Practice of GPW Listed Companies 2016" which came to force as at 1 January 2016 and is a base for this report on application of the principles of corporate governance for the financial year ended 31 December 2017.

The content of the WSE Best Practices is publicly available on the website of the Warsaw Stock Exchange dedicated to those issues at https://www.gpw.pl/best-practice.

Part 2. The principles of corporate governance that the issuer has waived, including the reasons for such waiver

We strive to make every possible effort to employ the corporate governance principles set out in the WSE Best Practices, and try to follow, in all areas of the Company's business, all the recommendations regarding best practices of Warsaw Stock Exchange Listed Companies and all the recommendations directed to management boards, supervisory boards and shareholders.

Additionally, so as to implement a transparent and effective information policy the Company provides fast and safe access to information for shareholders, analysts and investors, employing both traditional and modern, technologies of publishing information about the Company to the greatest extent possible.

In the year ended 31 December 2017 the Company did comply with all principles of the WSE Best Practices.

Part 3. The principal characteristics of the internal control and risk management systems used with respect to the procedure of preparing financial statements and consolidated financial statements

The management board is responsible for the Company's internal control system and its effectiveness in the process of preparing financial statements and interim reports prepared and published in accordance with the provisions of the Decree of the Finance Minister of 19 February 2009 on current and interim information provided by issuers of securities and the conditions for accepting, as equivalent, information required by the provisions of a country not being a member state.

The Company draws on its employees' extensive experience in the identification, documentation, recording and controlling of economic operations, including numerous control procedures supported by modern information technologies used for the recording, processing and presentation of operational and financial data.

In order to ensure the accuracy and reliability of the accounts of the parent and subsidiary companies, the Company applies a series of internal procedures in the area of transactional control systems and processes resulting from the activities of the Company and the capital group.

An important element of the risk management, in relation to the financial reporting process, is ongoing internal controls exercised by main accountants on the holding and subsidiaries level.

The budgetary control system is based on monthly and annual financial and operational reporting. Financial results are monitored regularly.

One of the basic elements of control in the preparation of financial statements of the Company and the Group is verification carried out by independent auditors. An auditor is chosen from a group of reputable firms which guarantee a high standard of service and independence. The supervisory board approves the choice of the auditor. The tasks of the independent auditor include, in particular: a review of semi-annual stand-alone and consolidated financial statements and audit of annual stand-alone and consolidated financial statements.

An auditor’s independence is fundamental to ensuring the accuracy of an audit of books. An audit committee, appointed to the Company’s supervisory board, supervises the financial reporting process in the Company, in co-operation with the independent auditor, who participates in the audit committee meetings. The audit committee oversees the financial reporting process, in order to ensure sustainability, transparency and integrity of financial information. The audit committee includes one member of the supervisory board who meets the independence criteria set out in the Best Practices of WSE Listed Companies. The audit committee reports to the supervisory board.

Moreover, under Article 4a of the Act of 29 September 1994 on accounting, the duties of the supervisory board include ensuring that the financial statements and the report of the Company’s operations meet the requirements of the law, and the supervisory board carries out this duty, using the powers under the law and the articles of association of the Company. This is yet another level of control exercised by an independent body to ensure the accuracy and reliability of the information presented in the separate and consolidated financial statements.

Part 4. Shareholders who, directly or indirectly, have substantial shareholding, including the number of shares held by them, the percentage share in the share capital, and the number of votes attached to their shares in the overall number of votes at the general meeting

In May 2017, the Company’s shareholders meeting decided on the dividend payout in cash or in shares. Following this decision it also adopted a resolution regarding the issuance of the Series L Shares. It enabled the Company’s shareholders to elect to receive the dividend payable by the Company in the form of newly issued shares instead of cash. As a result in June 2017, the Company issued 10,087,026 series L Shares to the Company’s shareholders, who chose the dividend in the form of shares.

The following table presents the Company’s shareholders, who had no less than 5% of votes at the Ordinary Shareholders Meeting of GTC S.A., as of the date of 31 December 2017. The table is prepared based on information received directly from the shareholders.

Shareholder	Number of shares and rights to the shares held (not in thousand)	% of share capital	Number of votes (not in thousand)	% of votes	Change in number of shares since 15 May 2017 (not in thousand)
LSREF III GTC Investments B.V.[1]	287,516,755	61.13%	287,516,755	61.13%	An increase of 8,667,098
OFE PZU Złota Jesień	48,648,000	10.34%	48,648,000	10.34%	An increase of 801,000
AVIVA OFE Aviva BZ WBK	34,413,161	7.32%	34,413,161	7.32%	An increase of 1,491,161
Other shareholders	99,725,588	21.20%	99,725,588	21.20%	A decrease of 872,233
Total	**470,303,504**	**100.00%**	**470,303,504**	**100.00%**	

[1]LSREF III GTC Investments B.V. is related to Lone Star Real Estate Partners III L.P.

Part 5. Holders of any securities that grant special rights of control, including a description of such rights

There are no special rights of control that would be attached to any securities in Globe Trade Centre S.A.

Part 6. Restrictions concerning the exercise of voting rights, such as restriction of the exercise of voting rights by holders of any specific part or number of votes, time restrictions concerning the exercise of voting rights or regulations whereunder, with the co-operation of the company, the equity rights related to the securities are separate from holding securities

There are no restrictions applicable to the exercise of voting rights such as restriction of the exercise of voting rights by holders of any specific part or number of shares, any time restrictions applicable to the exercise of voting rights or regulations whereunder, with the co-operation of Globe Trade Centre S.A., the equity rights related to securities would be separate from holding securities.

Part 7. Restrictions concerning transfer of the ownership title to securities in Globe Trade Centre S.A.

There are no limitations of transfer of ownership title to securities, except for those limitations that are resulting from the general provisions of the law, in particular contractual limitations regarding the transfer of the ownership rights to the securities issued by the Company.

Part 8. Rules concerning the appointment and dismissal of management and the rights thereof, specifically the right to make decisions concerning the issuance and redemption of shares.

Pursuant to Art. 10 the Company’s statute the management board consist of one to seven members, appointed by the supervisory board for a three-year term.

Additionally, the supervisory board designates the president of the management board and deputy thereof.

The management board of the Company is responsible for the Company's day-to-day management and for its representation in dealing with third parties. All issues related to the Company's operations are in the scope of activities of the management board, unless they are specified as the competence of the supervisory board or the general meeting by the provisions of applicable law or the articles of association.

Members of the management board participate, in particular, in general meetings and provide answers to questions asked during general meetings. Moreover, members of the management board invited to a supervisory board meeting by the chairman of the supervisory board participate in such meeting, with a right to voice their opinion on issues on the agenda.

The general meeting takes decisions regarding the issuance or buying back of shares in the Company. The competencies of the management board in the scope are limited to execution of any resolutions adopted by the general meeting.

Part 9. Overview of the procedure of amending the Company's articles of association

A change to the Company's articles of association require a resolution of the general meeting and an entry into the Court register. The general provisions of law and the articles of association govern the procedure of adopting resolutions regarding changes to the articles of association.

Part 10. The bylaws of the general meeting and its principal rights and description of rights of shareholders and their exercise, in particular the rules resulting from the bylaws of the general meeting, unless information on that scope results directly from the provisions of law

The general meeting acts pursuant to the provisions of the Polish Commercial Companies Code and the articles of association.

The general meeting adopts resolutions regarding, in particular, the following issues:

a) discussion and approval of reports of the management board and the financial statements for the previous year,

b) decision about allocation of profits or covering of debts,

c) signing off for the performance of duties for the supervisory board and the management board,

d) determination of the supervisory board remuneration,

e) changes to the articles of association of the Company,

g) increase or decrease in the share capital,

h) merger or transformation of the Company,

i) dissolution or liquidation of the Company,

j) issuance of bonds,

k) sale or lease of the Company and the establishment of a right of use or sale of the Company's enterprise,

l) all decisions regarding claims for damages upon establishment of the Company, or the performance of management or supervision.

A general meeting can be attended by persons who are shareholders of the Company sixteen days before the date of the general meeting (the day of registration for participation in the general meeting).

A shareholder who is natural person is entitled to participate in general meetings and execute voting rights in person or through a proxy. A shareholder which is a legal entity is entitled to participate in general meetings and execute voting rights through a person authorized to forward statements of will on their behalf or through a proxy.

A power of attorney to attend a general meeting and exercise voting rights must be in written or electronic form. For the purposes of identification of the shareholder who granted the power of attorney, a notice on the granting of such power of attorney electronically should contain (as a schedule):

- if the shareholder is an individual, a copy of an identity card, passport or any other official identification document confirming the identity of the shareholder; or

- if the shareholder is not an individual, a copy of an extract from a relevant register or any other document confirming the authorisation of the individual(s) to represent the shareholder at the general meeting (e.g. an uninterrupted chain of powers of attorney).

The general meeting may be attended by members of the management board and supervisory board (in a composition which allows for substantive answers to the questions asked during the general meeting) and by the auditor of the Company, if the general meeting is held to discuss financial matters.

At the general meeting each participant is entitled to be elected the chairman of the general meeting, and also nominate one person as a candidate for the position of chairman of the general meeting. Until election of the chairman the general meeting may not take any decisions.

The chairman of the general meeting directs proceedings in accordance with the agreed agenda, provisions of law, the articles of association, and, in particular: gives the floor to speakers, orders votes and announces the results thereof. The chairman ensures efficient proceedings and respecting of the rights and interests of all shareholders.

After the creation and signing of the attendance list, the chairman confirms that the general meeting has been called in the correct manner and is authorized to pass resolutions.

The chairman of the general meeting closes the general meeting upon the exhausting of its agenda.

Part 11. Personnel composition and changes in the previous business year and description of the functioning of the management, supervisory, or administrative bodies of the Company and its committees.

The management board

Currently, the management board is composed of two members. During 2017, there was no change in the composition of the management board.

Composition of the management board

The following table presents the names, surnames, functions, dates of appointment and dates of expiry of the current term of the members of the management board as at 31 December 2017:

Name and surname	Function	Year of first appointment	Year of appointment for the current term	Year of expiry of term
Thomas Kurzmann	President of the management board	2014	2017	2020
Erez Boniel	Member of the management board	1997	2015	2018

Description of operations of the management board

The management board runs the Company's business in a transparent and efficient way pursuant to the provisions of applicable law, its internal provisions and the "Best Practices of WSE Listed Companies". When taking decisions related to the Company's business, the members of the management board act within limits of justified business risk.

The two members of management board acting jointly are entitled to make representations on the Company's behalf.

All issues related to the management of the Company which are not specified by the provisions of applicable law or the articles of association as competences of the supervisory board or the general meeting are within the scope of competence of the management board.

Members of the management board participate in sessions of the general meeting and provide substantive answers to questions asked during the general meeting. Members of the management board invited to a meeting of the supervisory board by the chairman of the supervisory board participate in such meeting with the right to take the floor regarding issues on the agenda. Members of the management board are required to, within their scope of competence and the scope necessary to settle issues discussed by the supervisory board, submit explanations and information regarding the Company's business to the participants of a meeting of the supervisory board.

The management board makes any decisions considered (by the management board) to be important for the company by passing resolutions at meetings thereof. Such resolutions are passed by simple majority.

Moreover, the management board may adopt resolutions in writing or via a manner enabling instantaneous communication between the members of the management board by means of audio-video communication (e.g. teleconferencing, videoconferencing, etc).

The supervisory board

As of 31 December 2017, the supervisory board comprises eight members. During 2017, the following changes in the composition of the supervisory board took place:

- on 21 September 2017, Tomasz Styczyński submitted his resignations from position of a member of the Supervisory Board of the Company with immediate effect. (see current report no 27/2017);

- Powszechne Towarzystwo Emerytalne PZU SA, with its registered seat in Warsaw, acting on behalf of Otwarty Fundusz Emerytalny PZU "Złota Jesień", has appointed Ryszard Wawryniewicz to the Company's Supervisory Board for a three-year term of office commencing on 26 September 2017 (see current report no 28/2017).

Currently, the supervisory board comprises nine members. On 23 February 2018 LSREF III GTC Investments B.V., appoints Mr. Olivier Brahin as a member of the supervisory board of the Company, effective 1 March 2018.

The composition of the supervisory board

The following table presents the names, surnames, functions, dates of appointment and dates of expiry of the current term of the members of the supervisory board as at 31 December 2017:

Name and surname	Function	Year of first appointment	Year of appointment for the current term	Year of expiry of term
Alexander Hesse	Chairman of the supervisory board	2013	2016	2019
Philippe Couturier	Member of the supervisory board	2013	2016	2019
Jan Düdden	Member of the supervisory board	2014	2017	2020
Mariusz Grendowicz	Member of the supervisory board	2000	2016	2019
Ryszard Koper [1]	Independent member of the supervisory board	2016	2016	2019
Marcin Murawski [1]	Independent member of the supervisory board	2013	2016	2019
Katharina Schade	Member of the supervisory board	2013	2016	2019
Ryszard Wawryniewicz [1]	Independent member of the supervisory board	2017	2017	2020

[1] conforms with the independence criteria listed in the Best Practices of WSE Listed Companies

Description of the operations of the supervisory board

The supervisory board acts pursuant to the Polish Commercial Companies Code and also pursuant to the articles of association of the Company and the supervisory board regulations dated 16 May 2017.

Pursuant to the articles of association of the Company, the supervisory board performs constant supervision over activities of the enterprise. Within the scope of its supervisory activities, the supervisory board may demand any information and documents regarding the Company's business from the management board.

Members of the supervisory board are required to take necessary steps to receive regular and full information from the management board regarding material matters concerning the Company's

business and risks involved in the business and the strategies of risk management. The supervisory board may (while not infringing the competencies of other bodies of the Company) express their opinion on all the issues related to the Company's business, including forwarding motions and proposals to the management board.

In addition to the matters defined in the Polish Commercial Companies Code the following are the competencies of the supervisory board:

a) The establishment of remuneration and commissions for the members of the Company`s Management Board and representing the Company when executing agreements with Management Board members and in any disputes with Management Board members

b) Giving consent for the Company or one of its Subsidiaries to execute an agreement or agreements with an Affiliate or with a member of the Company's management board or supervisory board or with a member of the management or supervisory authorities of an Affiliate. Such consent is not be required for transactions with companies in which the Company holds, directly or indirectly, shares entitling it to at least 50% of votes at shareholders' meetings, if such transaction results in obligations of the other shareholders of such companies proportional to their stake in that company, or if the difference between the financial obligations of the Company and the other shareholders does not exceed EUR 5 million. In the articles of association indirect ownership of shares entitling the holder thereof to at least 50% of the votes at a shareholders' meeting means possession of such number of shares that entitles the holder thereof to at least 50% of votes in each of the indirectly held companies in the chain of subsidiaries.

c) Giving approval to any change of the auditor selected by the Company's management board to audit the Company's financial statements.

d) Expressing consent for the Company or one of its Subsidiaries to: (i) execute transaction comprising the acquisition or sale of investment assets of any kind the value of which exceeds EUR 30million; (ii) issue a guarantee for an amount exceeding EUR 20 million; or (iii) execute any transaction (in the form of a single legal act or a number of legal acts) other than those set forth in preceding points (i) or (ii) where the value of such transaction exceeds EUR 20 million. For the avoidance of doubt, consent is required for the Company's management board to vote on the Company's behalf at a meeting of the shareholders of a Company's Subsidiary authorizing transactions meeting above criteria.

For the purposes of this competencies and articles of association:

a) an entity is an "Affiliate", if it is (i) a Dominating Entity with respect to the Company, or (ii) a Subsidiary of the Company; or (iii) a Subsidiary of a Dominating Entity of the Company; or (iv) a Subsidiary of the Company's Dominating Entity other than the Company' Subsidiary; or (v) a Subsidiary of any member of managing or supervisory authorities of the Company or any of the entities designated in (i) through (iii);

b) an entity is a "Subsidiary" of any other entity (the "Dominating Entity") if the Dominating Entity: (i) has the right to exercise the majority of votes in the governing bodies of the Subsidiary, including on the basis of understandings with other authorised entities, or (ii) is authorised to

take decisions regarding financial policies and current commercial operations of the Subsidiary on the basis of any law, statute or agreement, or (iii) is authorised to appoint or dismiss the majority of members of managing authorities of the Subsidiary, or (iv) more than half of the members of the Subsidiary's management board are also members of the management board or persons performing any management functions at the Dominating Entity or any other Subsidiary.

The supervisory board consists of five to twenty members, including the Chairman of the supervisory board. Each shareholder who holds individually more than 5% of shares in the Company's share capital (the "Initial Threshold") is entitled to appoint one supervisory board member. Shareholders are further entitled to appoint one additional supervisory board member for each block of held shares constituting 5% of the Company's share capital above the Initial Threshold. Supervisory board members are appointed by a written notice of entitled shareholders given to the chairman of the general meeting at the general meeting or outside the general meeting delivered to the management board along with a written statement from the selected person that he/she agrees to be appointed to the supervisory board.

The number of supervisory board members is equal to the number of members appointed by the entitled shareholders, increased by one independent member, provided that in each case such number may not be lower than five.

Under the Company's articles of association, the supervisory board should consist of at least one member meeting the criteria of an independent member of the supervisory board as set out in the corporate governance regulations included in the Best Practices of Warsaw Stock Exchange listed Companies.

The chairman of the supervisory board calls meetings of the supervisory board. The chairman calls meetings of the supervisory board upon the request of a member of the management board or a member of the supervisory board therefore. A meeting of the supervisory board must take place within 14 days of the date of filing a written application therefore with the Chairman.

The supervisory board may convene meetings both within the territory of the Republic of Poland and abroad. Supervisory board meetings may be held via telephone, provided that all the participants thereof are able to communicate simultaneously. All resolutions adopted at such meetings are valid, provided that the attendance register is signed by the supervisory board members who participated in such meeting. The place where the Chairman attends such meeting is considered as the place where the meeting was held.

Unless the articles of association provide otherwise, resolutions of the supervisory board are adopted by absolute majority of votes cast in the presence of at least five supervisory board members. In the event of a tie, the Chairman has a casting vote.

Members of the supervisory board execute their rights and perform their duties in person. Members of the supervisory board may participate in general meetings.

Moreover, within the performance of their duties, the supervisory board is required to:

a) once a year prepare and present to the general meeting a concise evaluation of the situation of the Company, taking into account the evaluation of the internal control system and the management system of risks that are important for the Company,

b) once a year prepare and present to the annual general meeting an evaluation of its own performance,

c) discuss and issue opinions on matters which are to be subject of the resolutions of the general meeting.

Committees of the supervisory board

The supervisory board may appoint committees to investigate certain issues which are in the competence of the supervisory board or to act as advisory and opinion bodies to the supervisory board.

The supervisory board has appointed the Audit Committee, whose principal task is to make administrative reviews, to exercise financial control, and to oversee financial reporting as well as internal and external audit procedures at the Company and at the companies in its group. As of 31 December 2017, the members of the Audit Committee were Marcin Murawski, Ryszard Koper and Mariusz Grendowicz.

The supervisory board has appointed the Remuneration Committee of the Supervisory Board, which has no decision-making authority and which is responsible for making recommendations to the supervisory board with respect to the remuneration of the members of the management board and the policies for setting such remuneration. As of 31 December 2017, the members of the Remuneration Committee were Alexander Hesse, Marcin Murawski and Mariusz Grendowicz.

Part 12. Diversity policy in terms of the management, supervisory, or administrative bodies of the Company.

The strategic objective of our diversity policy is to recruit and retain such workforce as to ensure delivery of the GTC Group's business objectives. The priority of diversity policy is to build a sense of trust between the management and other employees, and to treat everyone fairly regardless of their position.

The Company's diversity policy is centered on respecting the employees as an element of diversity-oriented culture regardless of gender, age, education and cultural heritage. It includes integrating employees in their workplace and ensuring that all employees are treated equally at work. The Company supports various social initiatives, which promote equal opportunities. Additionally, the Company joins charitable activities initiated by the employees. The principles of equal treatment at the workplace have been reflected in the company's bylaws, which are available to all employees. The Company values its enriched diversity policy in pursuing its goals.

Management Board's representations

Pursuant to the requirements of the Regulation of the Council of Ministers of 19 February 2009 on ongoing and periodical information reported by issuers of securities and conditions of recognizing as equivalent information required by the law of a country not being a member state the Management Board of Globe Trade Centre S.A. represented by:

Thomas Kurzmann, President of the Management Board

Erez Boniel, Member of the Management Board

hereby represents that:

- to the best of its knowledge the consolidated financial statements for twelve months ended 31 December 2017 and the comparable data were prepared in accordance with the prevailing accounting principles, and they truly, reliably, and clearly reflect the asset and financial standing of the Group and its financial result, and the annual Management Board’s activity report contains a true image of the Group’s development and achievements and its standing, including the description of basic risks and threats;

- the entity authorized to audit the financial statements, which has audited the consolidated financial statements, was selected in accordance with the regulations of law. That entity as well as the auditor who has carried out the audit fulfilled the conditions for expressing an unbiased and independent opinion about the audit pursuant to relevant provisions of the national law and industry norms.

Warsaw, 20 March 2018

GLOBE TRADE CENTRE S.A.

IFRS CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED
31 DECEMBER 2017
WITH THE INDEPENDENT AUDITOR'S REPORT

Globe Trade Centre S.A.
Consolidated Statement of Financial Position
as of 31 December 2017
(in thousands of Euro)

	Note	31 December 2017	31 December 2016
ASSETS			
Non-current assets			
Investment property	18	1,797,583	1,501,770
Investment property landbank	18	139,258	102,905
Residential landbank	19	12,698	13,761
Investment in associates and joint ventures	21	1,303	3,803
Property, plant and equipment	17	6,847	6,002
Deferred tax asset	16	-	1,075
Other non-current assets		86	353
		1,957,775	**1,629,669**
Assets held for sale	33	**4,336**	**-**
Current assets			
Residential inventory	19	3,755	5,355
Accounts receivables		4,367	5,363
Accrued income		1,093	767
VAT receivable	30	6,618	17,389
Income tax receivable		619	652
Prepayments and deferred expenses		1,767	2,558
Escrow account	20	777	-
Short-term deposits	25	52,756	27,925
Cash and cash equivalents	26	148,746	149,812
		220,498	**209,821**
TOTAL ASSETS		**2,182,609**	**1,839,490**

The accompanying notes are an integral part of this Consolidated Statement of Financial Position

Globe Trade Centre S.A.
Consolidated Statement of Financial Position
as of 31 December 2017
(in thousands of Euro)

	Note	31 December 2017	31 December 2016
EQUITY AND LIABILITIES			
Equity attributable to equity holders of the Company			
Share capital	34	10,651	10,410
Share premium	9	520,504	499,288
Capital reserve	9	(36,054)	(35,702)
Hedge reserve	23	(2,365)	(3,631)
Foreign currency translation		2,323	1,872
Accumulated profit		441,977	315,195
		937,036	**787,432**
Non-controlling interest	31	4,226	2,891
Total Equity		**941,262**	**790,323**
Non-current liabilities			
Long-term portion of long-term borrowing	32	907,704	739,031
Deposits from tenants	28	8,960	8,043
Long term payable	29	2,621	2,730
Provision for share based payment	35	5,744	2,046
Derivatives	23	1,360	2,778
Provision for deferred tax liability	16	125,827	98,237
		1,052,216	**852,865**
Current liabilities			
Investment and trade payables and provisions	24	50,505	36,739
Current portion of long-term borrowing	32	126,381	153,902
VAT and other taxes payable		1,516	1,122
Income tax payable		1,843	530
Derivatives	23	2,035	2,553
Advances received	22	6,851	1,456
		189,131	**196,302**
TOTAL EQUITY AND LIABILITIES		**2,182,609**	**1,839,490**

Globe Trade Centre S.A.
Consolidated Income Statement
for the year ended 31 December 2017
(in thousands of Euro)

	Note	2017	2016
Revenue from rental activity	10	122,609	114,341
Residential revenue	10	6,128	5,960
Cost of rental activity	11	(32,081)	(27,890)
Residential costs	11	(4,515)	(5,065)
Gross margin from operations		**92,141**	**87,346**
Selling expenses	12	(2,111)	(3,236)
Administration expenses	13	(15,242)	(12,234)
Profit from revaluation/ impairment of assets	18	148,562	84,551
Other income		1,484	1,354
Other expenses	27	(2,806)	(2,996)
Profit/(Loss) from continuing operations before tax and finance income / expense		**222,028**	**154,785**
Foreign exchange differences gain/(loss), net		(4,906)	2,435
Finance income	14	234	1,324
Finance cost	14	(28,848)	(29,500)
Share of profit/(loss) of associates and joint ventures	21	184	(4,474)
Profit/(loss) before tax		**188,692**	**124,570**
Taxation	16	(32,094)	35,005
Profit/(Loss) for the year		**156,598**	**159,575**
Attributable to:			
Equity holders of the Company		156,300	158,548
Non-controlling interest		298	1,027
Basic earnings per share (in Euro)	36	0.34	0.34

The accompanying notes are an integral part of this Consolidated Income Statement

Globe Trade Centre S.A.
Consolidated Statement of Comprehensive Income
for the year ended 31 December 2017
(In thousands of Euro)

	2017	2016
Profit for the period	**156,598**	**159,575**
Net other comprehensive income for the period, net of tax not to be reclassified to profit or loss in subsequent periods	-	-
Gain on hedge transactions	1,633	1,160
Income tax	(367)	(228)
Net gain on hedge transactions	**1,266**	**932**
Foreign currency translation	451	464
Net other comprehensive income for the period, net of tax to be reclassified to profit or loss in subsequent periods	*1,717*	*1,396*
Total comprehensive income for the period, net of tax	**158,315**	**160,971**
Attributable to:		
Equity holders of the Company	158,017	159,947
Non-controlling interest	298	1,024

The accompanying notes are an integral part of this Consolidated Statement of Comprehensive Income

Globe Trade Centre S.A.
Consolidated Statement of Changes in Equity
for the year ended 31 December 2017
(In thousands of Euro)

	Share Capital	Share premium	Capital reserve	Hedge reserve	Foreign currency translation reserve	Accumulated profit	Total	Non-controlling interest	Total
Balance as of 1 January 2017	**10,410**	**499,288**	**(35,702)**	**(3,631)**	**1,872**	**315,195**	**787,432**	**2,891**	**790,323**
Other comprehensive income	-	-	-	1,266	451		1,717		1,717
Profit / (loss) for the year ended 31 December 2017	-	-	-	-	-	156,300	156,300	298	156,598
Total comprehensive income / (loss) for the period	**-**	**-**	**-**	**1,266**	**451**	**156,300**	**158,017**	**298**	**158,315**
Purchase of NCI shares	**-**	**-**	(352)				(352)	1,037	685
Distribution of dividend	**-**	**-**	-	-	-	(29,518)	(29,518)	-	(29,518)
Issuance of shares	**241**	**21,216**	-	-	-	-	21,457	-	21,457
Balance as of 31 December 2017	**10,651**	**520,504**	**(36,054)**	**(2,365)**	**2,323**	**441,977**	**937,036**	**4,226**	**941,262**

	Share Capital	Share premium	Capital reserve	Hedge reserve	Foreign currency translation reserve	Accumulated profit	Total	Non-controlling interest	Total
Balance as of 1 January 2016	**10,410**	**499,288**	**(20,646)**	**(4,563)**	**1,405**	**156,647**	**642,541**	**(21,339)**	**621,202**
Other comprehensive income	-	-	-	932	467	-	1,399	(3)	1,396
Profit / (loss) for the year ended 31 December 2016	-	-	-	-	-	158,548	158,548	1,027	159,575
Total comprehensive income / (loss) for the period	**-**	**-**	**-**	**932**	**467**	**158,548**	**159,947**	**1,024**	**160,971**
Purchase of NCI shares	**-**	**-**	(14,284)	-	-	-	(14,284)	23,206	8,922
Other	**-**	**-**	(772)	-	-	-	(772)	-	(772)
Balance as of 31 December 2016	**10,410**	**499,288**	**(35,702)**	**(3,631)**	**1,872**	**315,195**	**787,432**	**2,891**	**790,323**

Globe Trade Centre S.A.
Consolidated Statement of Cash Flow
for the year ended 31 December 2017
(In thousands of Euro)

	Note	Year ended 31 December 2017	Year ended 31 December 2016
CASH FLOWS FROM OPERATING ACTIVITIES:			
Profit before tax		188,692	124,570
Adjustments for:			
Loss/(profit) from revaluation/impairment of assets and residential projects		(148,562)	(84,551)
Share of loss / (profit) of associates and joint ventures	21	(184)	4,474
Loss / (profit) on disposal of asset		-	65
Foreign exchange differences loss/(gain), net		4,906	(2,434)
Finance income	14	(234)	(1,324)
Finance cost	14	28,848	29,500
Provision for share based payment loss/(profit)	13	3,698	894
Depreciation	17	529	468
Operating cash before working capital changes		**77,693**	**71,662**
Decrease in accounts receivables and prepayments and other current assets		594	374
Decrease in residential inventory		1,737	2,303
Increase in advances received		2,578	1,456
Increase in deposits from tenants		1,486	1,801
Increase (decrease) in trade payables		505	(202)
Cash generated from operations		**84,593**	**77,394**
Tax paid in the period		(3,915)	(4,113)
Net cash from operating activities		**80,678**	**73,281**
CASH FLOWS FROM INVESTING ACTIVITIES:			
Expenditure on investment property		(155,204)	(93,259)
Purchase of completed assets and land	9	(62,108)	(139,646)
Increase in escrow accounts for purchase of assets		(777)	-
Sale (including advances) of investment property		4,499	12,640
VAT/tax on purchase/sale of investment property		10,953	(8,900)
Sale of subsidiary		37,545	10,179
Purchase of subsidiary	9	(15,896)	(9,844)
Purchase of non-controlling interest		(352)	(18,558)
Sale of shares in associates		1,250	3,947
Interest received		161	425
Loans granted to associates		-	(123)
Loans repayments from associates		1,625	11,349
Net cash used in investing activities		**(178,304)**	**(231,790)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Distribution of dividend		(8,061)	-
Proceeds from long-term borrowings	32	258,268	273,517
Repayment of long-term borrowings	32	(100,343)	(103,193)
Interest paid		(26,241)	(25,075)
Loans origination payment		(3,573)	(2,229)
Decrease/(Increase) in short term deposits		(24,831)	(2,214)
Net cash from /(used) in financing activities		**95,219**	**140,806**
Net foreign exchange difference		**1,341**	**(1,957)**
Net increase/ (Decrease) in cash and cash equivalents		**(1,066)**	**(19,660)**
Cash and cash equivalents at the beginning of the period		**149,812**	**169,472**
Cash and cash equivalents at the end of the period		**148,746**	**149,812**

The accompanying notes are an integral part of this Consolidated Statement of Cash Flow

1. Principal activities

Globe Trade Centre S.A. (the “Company”, “GTC S.A.” or “GTC”) and its subsidiaries (“GTC Group” or “the Group”) are an international real-estate corporation. The Company was registered in Warsaw on 19 December 1996. The Company’s registered office is in Warsaw, Poland at 17 Stycznia 45a. The Company owns through subsidiaries, joint ventures and associates commercial and residential real estate companies in Poland, Hungary, Romania, Serbia, Croatia, Ukraine, Slovakia, Bulgaria, Russia and Czech Republic.

The Group’s business activities are:

(a) Development and rental of office and retail space and

(b) Development and sale of residential units.

As of 31 December 2017 and 2016, the number of full time equivalent working employees in the Group companies was 171 and 172, respectively.

There is no seasonality in the business of the Group companies.

GTC is primarily listed on the Warsaw Stock Exchange and is inward listed in Johannesburg Stock Exchange.

The major shareholder of the Company is LSREF III GTC Investments B.V. (“LSREF III”), controlled by Lone Star, a global private equity firm, which held 287,516,755 shares 61.13% of total share as of 31 December 2017.

2. Functional and presentation currencies

The functional currency of GTC S.A. and most of its subsidiaries is Euro. The functional currency of some of GTC’s subsidiaries is other than Euro.

The financial statements of those companies prepared in their functional currencies are included in the consolidated financial statements by translation into Euro using appropriate exchange rates outlined in IAS 21. Assets and liabilities are translated at the period end exchange rate, while income and expenses are translated at average exchange rates for the period. All resulting exchange differences are classified in equity as “Foreign currency translation” without effecting earnings for the period.

3. Basis of preparation and statement of compliance

The Company maintains its books of account in accordance with accounting principles and practices employed by enterprises in Poland as required by Polish accounting regulations. The companies outside Poland maintain their books of account in accordance with local GAAP. The consolidated financial statements include a number of adjustments not included in the books of account of the Group entities, which were made in order to bring the financial statements of those entities to conformity with IFRS.

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS”) as adopted by the EU („EU IFRS"). At the date of authorisation of these consolidated financial statements, taking into account the EU's ongoing process of IFRS endorsement and the nature of the Group's activities, there is a difference between International Financial Reporting Standards and International Financial Reporting Standards endorsed by the European Union.

4. Going concern

The Group's policies and processes are aimed at managing the Group's capital, financial and liquidity risks on a sound basis. The Group meets its day to day working capital requirements through generation of operating cash-flows from rental income. Further details of liquidity risks and capital management processes are described in note 39.

As of 31 December 2017, the Group's net working capital (defined as current assets less current liabilities) was positive and amounted to Euro 31.4 million.

The management has analysed the timing, nature and scale of potential financing needs of particular subsidiaries and believes that cash on hand, as well as, expected operating cash-flows will be sufficient to fund the Group's anticipated cash requirements for working capital purposes, for at least the next twelve months from the balance sheet date. Consequently, the consolidated financial statements have been prepared on the assumption that the Group companies will continue as a going concern in the foreseeable future, for at least 12 months from the balance sheet date.

5. Changes in accounting policies

The accounting policies applied in the preparation of the attached consolidated financial statements are consistent with those applied in the preparation of the consolidated financial statements of the Group for the year ended 31 December 2016 with the exception of the amendments presented below. These changes were applied in the attached consolidated financial statements on their effective date and had no significant impact on the disclosed financial information, or did not apply to the Group's transactions.

- Amendments to IAS 12 *Recognition of Deferred Tax Assets for Unrealised Losses*

The changes clarify issues related to deductible temporary differences associated with debt instruments measured at fair value, estimation of probable future taxable profits and assessment of whether taxable profits will be available against which the deductible temporary differences can be utilised. The changes are applied retrospectively.

- Amendments to IAS 7 *Disclosure Initiative*

The changes require the entity to disclose information that enable users of financial statements to evaluate changes in liabilities arising from financing activities. Entities need not provide comparative information when they first apply the amendments.

6. New standards and interpretations that have been issued but have not yet become effective, including impact of IFRS 15/IFRS 16/IFRS 9 implementation

Standards issued but not yet effective

The following new standards, amendments to standards and interpretations have been issued but are not yet effective.

- IFRS 9 Financial Instruments (issued on 24 July 2014) – effective for financial years beginning on or after 1 January 2018;
- IFRS 14 Regulatory Deferral Accounts (issued on 30 January 2014) – The European Commission has decided not to launch the endorsement process of this interim standard and to wait for the final standard– not yet endorsed by EU at the date of approval of these financial statements – effective for financial years beginning on or after 1 January 2016;
- IFRS 15 Revenue from Contracts with Customers (issued on 28 May 2014), including amendments to IFRS 15 Effective date of IFRS 15 (issued on 11 September 2015) - effective for financial years beginning on or after 1 January 2018;
- Amendments to IFRS 10 and IAS 28 Sale or Contribution of Assets Between an Investor and its Associate or Joint Venture (issued on 11 September 2014) - the endorsement process of these Amendments has been postponed by EU - the effective date was deferred indefinitely by IASB;
- IFRS 16 Leases (issued on 13 January 2016) - effective for financial years beginning on or after 1 January 2019;
- Amendments to IFRS 4 Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts (issued on 12 September 2016) - effective for financial years beginning on or after 1 January 2018;
- Clarifications to IFRS 15 Revenue from Contracts with Customers (issued on 12 April 2016) - effective for financial years beginning on or after 1 January 2018;
- Amendments to IFRS 2 Classification and Measurement of Share-based Payment Transactions (issued on 20 June 2016) - effective for financial years beginning on or after 1 January 2018,
- Amendments to IAS 28 Investments in Associates and Joint Ventures which are part of Annual Improvements to IFRS Standards 2014-2016 Cycle (issued on 8 December 2016) – effective for financial years beginning on or after 1 January 2018,
- Amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards which are part of Annual Improvements to IFRS Standards 2014-2016 Cycle (issued on 8 December 2016) – effective for financial years beginning on or after 1 January 2018,
- IFRIC Interpretation 22 Foreign Currency Transactions and Advance Consideration (issued on 8 December 2016) - not yet endorsed by EU at the date of approval of these financial statements – effective for financial years beginning on or after 1 January 2018;
- Amendments to IAS 40: Transfers of Investment Property (issued on 8 December 2016)– effective for financial years beginning on or after 1 January 2018;
- IFRS 17 Insurance Contracts (issued on 18 May 2017) - not yet endorsed by EU at the date of approval of these financial statements - effective for financial years beginning on or after 1 January 2021;

6. New standards and interpretations that have been issued but have not yet become effective, including impact of IFRS 15/IFRS 16/IFRS 9 implementation (continued)

- IFRIC 23 Uncertainty over Income Tax Treatments (issued on 7 June 2017) - not yet endorsed by EU at the date of approval of these financial statements - effective for financial years beginning on or after 1 January 2019,
- Amendments to IFRS 9: Prepayment Features with Negative Compensation (issued on 12 October 2017)) - not yet endorsed by EU at the date of approval of these financial statements – effective for financial years beginning on or after 1 January 2019;
- Amendments to IAS 28: Long-term Interests in Associates and Joint Ventures (issued on 12 October 2017) - not yet endorsed by EU at the date of approval of these financial statements – effective for financial years beginning on or after 1 January 2019;
- Annual Improvements to IFRS Standards 2015-2017 Cycle (issued on 12 December 2017) - not yet endorsed by EU at the date of approval of these financial statements – effective for financial years beginning on or after 1 January 2019,
- Amendments to IAS 19: Plan Amendment, Curtailment or Settlement (issued on 7 February 2018) - not yet endorsed by EU at the date of approval of these financial statements – effective for financial years beginning on or after 1 January 2019.

The effective dates are dates provided by the International Accounting Standards Board. Effective dates in the European Union may differ from the effective dates provided in standards and are published when the standards are endorsed by the European Union.

The Group has not elected to early adopt any of the standards, interpretations, or amendments which have not yet become effective. The Company's Management Board is analysing and assessing the effect of the new standards and interpretations on the accounting policies applied by the Group and on the Group's financial information.

IFRS 15 *Revenue from Contracts with Customers* implementation

International Financial Reporting Standard 15 *Revenue from Contracts with Customers* ("IFRS 15") was issued in May 2014, and then amended in April 2016, and establishes a five-step model to account for revenue arising from contracts with customers. The standard replaces IAS 18, *Revenue*, IAS 11, *Construction Contracts*, and a number of revenue-related interpretations. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The new revenue standard will supersede all current revenue recognition requirements under IFRS. Either a full retrospective application or a modified retrospective application is required for annual periods beginning on or after 1 January 2018. Early adoption is permitted.

The Group does not expect any significant impact of the adoption of IFRS 15 on the financial statements. But note that IFRS 15 will not affect the recognition of lease income as this is still dealt with under IAS 17 *Leases*.

6. New standards and interpretations that have been issued but have not yet become effective, including impact of IFRS 15/IFRS 16/IFRS 9 implementation (continued)

IFRS 16 *Leases* implementation

International Financial Reporting Standard 16 *Leases* ("IFRS 16") was issued in January 2016 and was endorsed by EU. The new standard brings most leases on-balance sheet for lessees under a single model, eliminating the distinction between operating and finance leases. Lessor accounting however remains largely unchanged and the distinction between operating and finance leases is retained. IFRS 16 supersedes IAS 17 *Leases* and related interpretations and is effective for periods beginning on or after 1 January 2019, with earlier adoption permitted.

At the date of the authorization of these consolidated financial statements for publication, the Management Board is in the process of assessing the impact of the application of IFRS 16 on the accounting principles (policy) applied by the Group with respect to the Group's operations or its financial results.

IFRS 9 *Financial Instruments* implementation

In July 2014, the IASB issued the final version of International Financial Reporting Standard 9 *Financial Instruments* ("IFRS 9"). IFRS 9 brings together all three aspects of the accounting for financial instruments project: classification and measurement, impairment and hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted.

During 2017, the Group performed an impact assessment of implementation of IFRS 9 on the accounting principles (policy) applied by the Group with respect to the Group's operations or its financial results. This assessment is based on currently available information and may be subject to changes arising from further reasonable and supportable information being made available to the Group in 2018 when the Group will adopt IFRS 9.

The Group plans to adopt the new standard on the required effective date and will not restate comparative information. Overall, the Group not expects significant impact on its statement of financial position and equity.

7. Summary of significant accounting policies

(a) Basis of accounting

The consolidated financial statements have been prepared on a historical cost basis, except for completed investment properties, IPUC if certain condition described in note 6(c) ii are met, share based payments and derivative financial instruments that have been measured at fair value.

(b) Property, Plant and Equipment

Plant and equipment consist of vehicles and equipment. Plant and equipment are recorded at cost less accumulated depreciation and impairment. Depreciation is provided using the straight-line method over the estimated useful life of the asset. Reassessment of the useful life and indications for impairment is done each quarter.

The following depreciation rates have been applied:

	Depreciation rates
Equipment	7-20 %
Buildings	2 %
Vehicles	20 %

Assets under construction other than investment property are shown at cost. The direct costs paid to subcontractors for the improvement of the property are capitalised into construction in progress. Capitalised costs also include borrowing costs, planning and design costs, construction overheads and other related costs. Assets under construction are not depreciated.

(c) Investment properties

Investment property comprises of a land plot or a building or a part of a building held to earn rental income and/or for capital appreciation and property that is being constructed or developed for future use as investment property (investment property under construction).

Investment properties are initially measured at cost, including transaction costs. The carrying amount includes the cost of replacing part of an existing investment property at the time the cost is incurred if the recognition criteria are met; and excludes the costs of day-to-day servicing of an investment property.

Subsequent to initial recognition, investment properties are stated at fair value. Any gain or loss arising from a change in the fair value of investment property is recognized in the profit or loss for the year in which it arose, after accounting for the related impact on deferred tax.

(i) Completed Investment properties

Investment properties are stated at fair value according to the fair value model, which reflects market conditions at the reporting date

Completed investment properties were externally valued by independent appraisers as of 31 December 2017 based on open market values. Completed properties are either valued on the basis of discounted cash flow or - as deemed appropriate – on basis of the Income capitalisation or yield method.

Investment properties are derecognised when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on the retirement or disposal of an investment property are recognised in the income statement in the year of retirement or disposal.

7. Summary of significant accounting policies (continued)

Transfers are made to investment property when, and only when, there is a change in use, evidenced by the end of owner occupation or commencement of an operating lease. Transfers are made from investment property when, and only when, there is a change in use, evidenced by commencement of owner occupation or commencement of development with a view to sale.

(ii) Investment property under construction

The Group has decided to revalue only IPUC, for which a substantial part of the development risks have been eliminated. Assets, for which this is not the case, are presented at the lower of cost or recoverable amount.

Land is reclassified to IPUC at the moment, at which active development of this land begins.

The Group has adopted the following criteria to assess whether the substantial risks are eliminated with regard to particular IPUC:

- agreement with general contractor is signed;
- building permit is obtained;
- at least 20% of the rentable area is leased to tenants (based on the signed lease agreements and letter of intents).

The fair values of IPUC were determined, as at their stage at the end of the reporting period. Valuations were performed in accordance with RICS and IVSC Valuation Standards using either the residual method approach, DCF or sales comparison approach, as deemed appropriate by the valuer. Each IPUC is individually assessed.

The future assets' value is estimated based on the expected future income from the project, using yields that are higher than the current yields of similar completed property. The remaining expected costs to completion are deducted from the estimated future assets value.

For projects where the completion is expected in the future, also a developer profit margin of unexecuted works, was deducted from the value.

(d) Hierarchy of investment property

Fair value hierarchy is based on the sourced of input used to estimate the fair value:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities,

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly,

Level 3: techniques which use inputs that have a significant effect on the recorded fair value that are not based on observable market data.

All investment properties are categorized in Level 2 or Level 3 of the fair value hierarchy.

The Group considered all investment value under construction carried at fair value as properties categorized in Level 3.

The Group considered completed investment properties as properties categorize in Level 2 or Level 3, based on the liquidity in the market it operates.

7. Summary of significant accounting policies (continued)

(e) Investment in associates

Investment in associates is accounted for under the equity method. The investment is carried in the statement of financial position at cost plus post acquisition changes in the Group share of net assets of the associate.

(f) Investment in joint ventures

Investment in Joint Ventures is accounted for under the equity method. The investment is carried in the statement of financial position at cost plus post acquisition changes in the Group share of net assets of the joint ventures.

(g) Lease origination costs

The costs incurred to originate a lease (mainly brokers' fees) for available rental space are added to the carrying value of investment property until the date of revaluation of the related investment property to its fair value. If as of the date of revaluation carrying value is higher than fair value the costs recognized in the profit or loss.

(h) Residential inventory and residential landbank

Inventory relates to residential projects under construction and is stated at the lower of cost and net realisable value. The realisable value is measured using the Discounted Cash Flow method, or Comparison method. Costs relating to the construction of a residential project are included in inventory.

Commissions paid to sales or marketing agents on the sale of real estate units, which are not refundable, are expensed in full when the contract to sell is secured.

The Group classifies its residential inventory to current or non-current assets, based on their development stage within the business operating cycle. The normal operating cycle in most cases falls within period of 1-5 years. Residential projects, which are active, are classified as current inventory. Residential projects which are planned to be completed in a period longer than the operating cycle are classified as residential landbank under non-current assets.

(i) Non-current assets held for sale

Non-current assets and their disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This requirement can be fulfilled only if the occurrence of a sale transaction is highly probable, and the item of assets is available for immediate sale in its present condition. The classification of an asset as held for sale assumes the intent of entity's management to realise the transaction of sale within one year from the moment of asset classification to the held for sale category. Non-current assets held for sale are measured at the lower of their carrying amount and fair value, less costs to sell.

(j) Advances received

Advances received (related to pre-sales of residential units) are deferred to the extent that they are not reflected as revenue as described below in note 6(m).

7. Summary of significant accounting policies (continued)

(k) Rental revenue

Rental revenues result from operating leases and are recognised as income over the lease term on a straight-line basis.

(l) Interest and dividend income

Interest income is recognised on an accrual basis using the effective interest method that is the rate that exactly discounts estimated future cash flows through the expected life of financial instruments to the net carrying amount of the underlying financial asset or liability.

Dividend income is recognised when the shareholders' right to receive payments is established.

(m) Contract revenue and costs recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. Revenues comprise amounts received or receivable, net of Value Added Tax and discounts.

Revenue from the sale of houses and apartments is recognized when the significant risks and rewards of ownership of the goods have passed to the buyer and when the revenue can be measured reliably. The risks and rewards are considered as transferred to the buyer when the houses or apartments have been substantially constructed, accepted by the customer and all significant amount resulting from the sale agreement was paid by the buyer.

The costs related to the real estate development incurred during the construction period are capitalized in inventory. Once revenue is recognised, the costs in respect of sold units are expensed.

(n) Borrowing costs

Borrowing costs directly attributable to the acquisition or construction of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of the asset. All other borrowing costs are expensed in the period in which they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

The interest capitalised is calculated using the Group's weighted average cost of borrowings after adjusting for borrowings associated with specific developments. Where borrowings are associated with specific developments, the amount capitalised is the gross interest incurred on those borrowings less any investment income arising on their temporary investment. Interest is capitalised as from the commencement of the development work until the date of practical completion, i.e., when substantially all of the development work is completed. The capitalisation of finance costs is suspended if there are prolonged periods when development activity is interrupted. Interest is also capitalised on the purchase cost of a site of property acquired specifically for redevelopment, but only where activities necessary to prepare the asset for redevelopment are in progress.

(o) Share issuance expenses

Share issuance costs are deducted from equity (share premium), net of any related income tax benefits.

7. Summary of significant accounting policies (continued)

(p) Income taxes

The current provision for corporate income tax for the Group companies is calculated in accordance with tax regulations ruling in particular country of operations and is based on the profit or loss reported under relevant tax regulations.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss,
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised, except:

- where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.
- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

Deferred tax assets and liabilities are measured using the tax rates enacted to taxable income in the years in which these temporary differences are expected to be recovered or settled.

The measurement of deferred tax liabilities and deferred tax assets reflects the tax consequences that would follow from the manner in which each company of the Group expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

At each reporting date, the Group companies re-assess unrecognised deferred tax assets and the carrying amount of deferred tax assets. The companies recognise a previously unrecognised deferred tax asset to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

The companies conversely reduce the carrying amount of a deferred tax asset to the extent that it is no longer probable that sufficient taxable profit will be available to allow the benefit of part or all of the deferred tax asset that might be utilised.

Deferred tax relating to items recognised outside profit and loss is also recognized outside profit and loss: under other comprehensive income if relates to items recognised under other comprehensive income, or under equity – if relates to items recognized in equity.

Deferred tax assets and deferred tax liabilities are offset if, and only if, a legally enforceable right exists to set off current tax assets against current tax liabilities, and the deferred tax assets and deferred tax liabilities relate to income taxes that are levied by the same taxation authority.

7. Summary of significant accounting policies (continued)

Revenues, expenses and assets are recognized net of the amount of value added tax except:

- where the value added tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case value added tax is recognized as part of the cost of acquisition of the asset or as part of the expense item, as applicable; and
- receivables and payables, which are stated with the amount of value added tax included.

The net amount of value added tax recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statement of financial position.

If according to the Group's assessment it is probable that the tax authorities will accept an uncertain tax treatment or a group of uncertain tax treatments, the Group determines taxable income (tax loss), tax base, unused tax losses and unused tax credits and tax rates, after considering in its tax return the applied or planned approach to taxation.

If the Group ascertains that it is not probable that the tax authorities will accept an uncertain tax treatment or a group of uncertain tax treatments, the Group reflects the impact of this uncertainty in determining taxable income (tax loss), unused tax losses, unused tax credits or tax rates. The Group accounts for this effect using the following methods:

- determining the most probable amount – it is a single amount from among possible results; or
- providing the expected amount – it is the sum total of the amounts weighted by probability from among possible results.

(q) Foreign exchange differences

For companies with Euro as functional currency, transactions denominated in a foreign currency (including Polish Zloty) are recorded in Euro at the actual exchange rates prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are revalued at period-end using period-end exchange rates. Foreign currency translation differences are charged to the income statement. The following exchange rates were used for valuation purposes:

31 December 2017	EUR/PLN	4.1709
31 December 2016	EUR/PLN	4.424

(r) Interest bearing loans and borrowings and debt securities

All loans and borrowings and debt securities are initially recognized at fair value, net of transaction costs associated with the borrowing.

After initial recognition, interest-bearing loans and borrowings and debt securities are measured at amortised cost using the effective interest rate method, except for liabilities designated as hedged items, which are measured in accordance with hedge accounting policies, as described in Note 7 (x)

Debt issuance expenses are deducted from the amount of debt originally recognised. These costs are amortised through the income statement over the estimated duration of the loan, except to the extent that they are directly attributable to construction. Debt issuance expenses represent an adjustment to effective interest rates.

Amortised cost is calculated by taking into account any transaction costs, and any discount or premium on settlement.

Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the amortisation process using the effective interest rate.

7. Summary of significant accounting policies (continued)

(s) Financial instruments

All financial assets and financial liabilities are recognised on the reporting date. All these financial assets and liabilities are initially measured at fair value plus transaction costs in case of financial assets and financial liabilities not classified as fair value through profit and loss. All purchases of financial assets (whose delivery time is regulated in the market) are accounted at trade date.

The table below presents the categorisation of financial assets and liabilities: Item, Category, and Measurement.

Item	Category	Measurement
	Financial assets/liabilities	
Cash and cash equivalent	Held for trading	Fair value – adjusted to income statements
Short-term deposits	Loans and receivables	Amortised cost
Debtors	Loans and receivables	Amortised cost
Trade and other payables		Amortised cost
Long and short term borrowings		Amortised cost
Deposits from tenants		Amortised cost
Long term payables		Amortised cost
Interest Rate Swaps	Hedging (cash flow hedges)	Fair value – adjusted to other comprehensive income (effective portion) / adjusted to income statements (ineffective portion)
Cap	Hedging (cash flow hedges)	Fair value – adjusted to profit and loss
Forex forward	Hedging (cash flow hedges)	Fair value – adjusted to profit and loss

The Group recognises a financial asset and financial liability in its statement of financial position, when and only when, it becomes a party to the contractual provisions of the instrument. An entity shall derecognise a financial asset when, and only when the contractual rights to the cash flows from the financial asset expire or it transfers the financial asset and the transfer qualifies for derecognition. A financial liability should be removed from the statement of financial position when, and only when, it is extinguished, that is, when the obligation specified in the contract is either discharged, cancelled, or expired.

Any change in the fair value of these instruments is taken to finance income (positive changes in the fair value) or finance costs (negative changes in the fair value) in the income statement/ statement of comprehensive income

The Group assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired.

(t) Cash and cash equivalents

Cash comprises cash on hand and on-call deposits. Cash equivalents are short-term highly liquid investments that readily convert to a known amount of cash and which are subject to insignificant risk of changes in value.

(u) Accounts receivables

Short term and long term accounts receivables are carried at amortised cost. An estimate for doubtful debts allowance is made when collections of the full amount is no longer probable, based on historical collection patterns or alternatively having regard to the age of the receivable balances.

7. Summary of significant accounting policies (continued)

(v) Impairment of non-current assets

The carrying value of assets is periodically reviewed by the Management Board to determine whether impairment may exist. In particular, the Management Board assessed whether the impairment indicators exist. Based upon its most recent analysis management believes that any material impairment of assets that existed at the reporting date, was reflected in these financial statements.

(w) Purchase of shares of non-controlling interest

If the Group increases its share in the net assets of its controlled subsidiaries the difference between the consideration paid/payable and the carrying amount of non-controlling interest is recognised in equity attributable to equity holders of the parent.

(x) Derivatives and hedge accounting

The Group uses interest rate swaps and caps to hedge its risks associated with interest rate volatility (cash flow hedges).

In relation to the instruments, which meet the conditions of cash flow hedges, the portion of gain or loss on the hedging instrument that is determined to be an effective hedge is recognised directly in other comprehensive income and the ineffective portion is recognised in net profit or loss. Presentation of hedges in the statement of financial position depends on their maturity.

The conditions of the cash flow hedges are as follows:

- At the inception of the hedge there is formal designation and documentation of the hedging relationship and the entity's risk management objective and strategy for undertaking the hedge. That documentation shall include identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk.
- The hedge is expected to be highly effective in achieving offsetting changes in fair value or cash flows attributable to the hedged risk, consistently with the originally documented risk management strategy for that particular hedging relationship.
- For cash flow hedges, a forecast transaction that is the subject of the hedge must be highly probable and must present an exposure to variations in cash flows that could ultimately affect profit or loss.
- The effectiveness of the hedge can be reliably measured, i.e. the fair value or cash flows of the hedged item that are attributable to the hedged risk and the fair value of the hedging instrument can be reliably measured.
- The hedge is assessed on an ongoing basis and determined actually to have been highly effective throughout the financial reporting periods for which the hedge was designated.

Hedge accounting is discontinued when the hedging instrument expires, or is sold, terminated or exercised, or no longer qualifies for hedge accounting. At that point of time, any cumulative gain or loss recognised in equity is transferred to net profit or loss for the year.

For derivatives that do not qualify for hedge accounting, any gain or losses arising from changes in fair value are recorded directly to net profit and loss of the year.

The fair value of FX forwards interest rate swaps and caps contracts is determined by reference to market values for similar instruments.

7. Summary of significant accounting policies (continued)

(y) Estimations

The preparation of financial statements in accordance with International Financial Reporting Standards requires Management to make estimates and assumptions that affect the reported amounts of assets and liabilities and contingent assets and liabilities at balance date. The actual results may differ from these estimates.

Investment property represents property held for long-term rental yields. Investment property is carried at fair value which is established at least annually by an independent registered valuer based on discounted projected cash flows from the investment property using the discounts rates applicable for the local real estate market and updated by Management judgment. The changes in the fair value of investment property are included in the profit or loss for the period in which it arises.

The group uses estimates in determining the amortization rates used.

The fair value of financial instruments for which no active market exists is assessed by means of appropriate valuation methods. In selecting the appropriate methods and assumptions, the Group applies professional judgment.

The Group recognises deferred tax asset based on the assumption that taxable profits will be available in the future against which the deferred tax asset can be utilised. Deterioration of future taxable profits might render this assumption unreasonable.

(z) Significant accounting judgements

In the process of applying the Group's accounting policies, management has made the following judgments:

The Group has entered into commercial property leases on its investment property portfolio. The Group has determined that it retains all the significant risks and rewards of ownership of these properties which are leased out on operating leases.

Significant accounting judgements related to investment property under construction are presented in note 6 c) (ii).

The Group classifies its residential inventory to current or non-current assets, based on their development stage within the business operating cycle. The normal operating cycle most cases falls within period of 1-5 years. Residential projects, which are active, are classified as current inventory. Residential projects which are planned to be completed in a period longer than the operating cycle are classified as residential landbank under non-current assets.

On the basis of the assessment made, the Group has reclassified part of inventory from current assets to residential landbank in non–current assets.

The Group has determine whether a transaction or other event is a business combination by applying the definition of business in IFRS 3.

Deferred tax with respect to outside temporary differences relating to subsidiaries, branches associates and joint agreements was calculated based on estimated probability that these temporary differences will be realized in the foreseeable future.

The Group also makes assessment of probability of realization of deferred tax asset. If necessary, the Group decreases deferred tax asset to the realizable value.

The group uses judgements in determining the settlement of share based payment in cash.

7. Summary of significant accounting policies (continued)

(aa) Basis of Consolidation

The consolidated financial statements comprise the financial statements of GTC and the financial statements of its subsidiaries for the year ended 31 December 2017.

The financial statements of the subsidiaries are prepared for the same reporting period as those of the parent company, using consistent accounting policies, and based on the same accounting policies applied to similar business transactions and events. Adjustments are made to bring into line any dissimilar accounting policies that may exist.

The Company, regardless of the nature of its involvement with an entity (the investee), shall determine whether it is a parent by assessing whether it controls the investee.

The Company controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

Thus, the Company controls an investee if and only if it has all the following:

- power over the investee;
- exposure, or rights, to variable returns from its involvement with the investee; and
- the ability to use its power over the investee to affect the amount of the investor's returns.

Subsidiaries are consolidated from the date on which control is transferred to the Group and cease to be consolidated from the date on which control is transferred out of the Group.

All significant intercompany balances and transactions, including unrealised gains arising from intra-group transactions, have been eliminated in full. Unrealised losses are eliminated unless they indicate impairment.

(bb) Provisions

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

(cc) Share-based payment transactions

Amongst others, GTC remunerates key personnel by granting them rights for payments based on GTC’s share price performance in PLN, in exchanges for their services (“Phantom shares”).

The cost of the phantom shares is measured initially at fair value at the grant date. The liability is re-measured to fair value at each reporting date up and including the settlement date, with changes in fair value recognised in administration expenses.

(dd) Earnings per share

Earnings per share for each reporting period is calculated as quotient of the profit for the given reporting period and the weighted average number of shares outstanding in that period.

(ee) Leases

Leases where the Group does not transfer substantially all the risk and benefits of ownership of the asset are classified as operating leases.

(in thousands of Euro)

8. Investment in Subsidiaries, Associates and Joint Ventures

The consolidated financial statements include the financial statements of the Company and its subsidiaries listed below together with direct and indirect ownership of these entities as at the end of each period (the table presents the effective stake):

Subsidiaries

Name	Holding Company	Country of incorporation	31 December 2017	31 December 2016
GTC Konstancja Sp. z o.o.	GTC S.A.	Poland	100%	100%
GTC Korona S.A.	GTC S.A.	Poland	100%	100%
Globis Poznań Sp. z o.o.	GTC S.A.	Poland	100%	100%
GTC Aeropark Sp. z o.o.	GTC S.A.	Poland	100%	100%
Globis Wrocław Sp. z o.o.	GTC S.A.	Poland	100%	100%
GTC Satellite Sp. z o.o.	GTC S.A.	Poland	100%	100%
GTC Neptune Gdansk Sp. z o.o.	GTC S.A.	Poland	100%	100%
GTC GK Office Sp. z o.o. (1)	GTC S.A.	Poland	-	100%
GTC Sterlinga Sp. z o.o.	GTC S.A.	Poland	100%	100%
GTC Karkonoska Sp. z o.o.	GTC S.A.	Poland	100%	100%
GTC Ortal Sp. z o.o.	GTC S.A.	Poland	100%	100%
Diego Sp. z o.o.	GTC S.A.	Poland	100%	100%
GTC Francuska Sp. z o.o.	GTC S.A.	Poland	100%	100%
GTC UBP Sp. z o.o.	GTC S.A.	Poland	100%	100%
GTC Pixel Sp. z o.o.	GTC S.A.	Poland	100%	100%
GTC Moderna Sp. z o.o.	GTC S.A.	Poland	100%	100%
Centrum Handlowe Wilanow Sp. z o.o.	GTC S.A.	Poland	100%	100%
GTC Management sp. z o.o.	GTC S.A.	Poland	100%	100%
GTC Corius sp. z o.o.	GTC S.A.	Poland	100%	100%
Centrum Światowida sp. z o.o.	GTC S.A.	Poland	100%	100%
Glorine investments sp. z o.o.	GTC S.A.	Poland	100%	100%
Glorine investments Sp. z o.o. s.k.a.	GTC S.A.	Poland	100%	100%
GTC Galeria CTWA Sp. z o.o.	GTC S.A.	Poland	100%	100%
Artico Sp. z o.o	GTC S.A.	Poland	100%	100%
Julesberg Sp. z o.o.	GTC S.A.	Poland	100%	100%
Jowett Sp. z o.o.	GTC S.A.	Poland	100%	100%
Calobra Sp. z o.o. Sp. j. (1)	GTC S.A.	Poland	-	100%
Mantezja 4 Sp. z o.o. Sp. j. (1)	GTC S.A.	Poland	-	100%
Havern Investments sp. z o.o. (1)	GTC S.A.	Poland	-	100%

(1) Liquidated

(in thousands of Euro)

8. Investment in Subsidiaries, Associates and Joint Ventures (continued)

Name	Holding Company	Country of incorporation	31 December 2017	31 December 2016
GTC Hungary Real Estate Development Company Ltd. ("GTC Hungary")	GTC S.A.	Hungary	100%	100%
Commercial Properties B.V. (formerly Budapest Offices B.V.) (7)	GTC Hungary	Netherlands	-	100%
GTC Duna Kft.	GTC Hungary	Hungary	100%	100%
Vaci Ut 81-85 Kft.	GTC Hungary	Hungary	100%	100%
Riverside Apartmanok Kft. ("Riverside") (1)	GTC Hungary	Hungary	100%	100%
Centre Point I. Kft. ("Centre Point I")	GTC Hungary	Hungary	100%	100%
Centre Point II. Kft.	GTC Hungary	Hungary	100%	100%
Spiral Holding Kft (4)	GTC Hungary	Hungary	-	100%
Spiral I.Kft.	GTC Hungary	Hungary	100%	100%
Spiral II Hungary. Kft.	GTC Hungary	Hungary	100%	100%
River Loft Apartmanok Ltd. (1)	GTC Hungary	Hungary	100%	100%
SASAD Resort Kft. ("Sasad")	GTC Hungary	Hungary	100%	100%
Albertfalva Üzletközpont Kft. ("formerly Szeremi Gate")	GTC Hungary	Hungary	100%	100%
GTC Metro Kft.	GTC Hungary	Hungary	100%	100%
SASAD Resort Offices Kft. (6)	GTC Hungary	Hungary	-	100%
Kompakt Land Kft (5)	GTC Hungary	Hungary	100%	-
Mastix Champion Kft. (3)	GTC Hungary	Hungary	-	100%
GTC White House Kft. ("formerly GTC Renaissance Plaza Kft.")	GTC Hungary	Hungary	100%	100%
VRK Tower Kft	GTC Hungary	Hungary	100%	100%
Amarantan Ltd.	GTC Hungary	Hungary	100%	100%
Abritus Kft. (6)	GTC Hungary	Hungary	-	100%
GTC Slovakia Real Estate s.r.o. (2)	GTC S.A.	Slovakia	-	100%
GTC Real Estate Vinohrady s.r.o. (1)	GTC S.A.	Slovakia	100%	100%

(1) Under liquidation
(2) Sold in 2017
(3) Mastix Ltd. was merged into GTC White House Ltd
(4) Spiral I. Kft. and Spiral Holding Kft. were merged
(5) Acquired in 2017
(6) Merged into Center Point I
(7) Liquidated

(in thousands of Euro)

8. Investment in Subsidiaries, Associates and Joint Ventures (continued)

Name	Holding Company	Country of incorporation	31 December 2017	31 December 2016
GTC Nekretnine Zagreb d.o.o.("GTC Zagreb")	GTC S.A.	Croatia	100%	100%
Euro Structor d.o.o.	GTC S.A.	Croatia	70%	70%
Marlera Golf LD d.o.o.	GTC S.A.	Croatia	80%	80%
Nova Istra Idaeus d.o.o.	Marlera Golf LD d.o.o	Croatia	80%	80%
GTC Nekretnine Jug. d.o.o. (1)	GTC S.A.	Croatia	-	100%
GTC Matrix d.o.o.	GTC S.A.	Croatia	100%	100%
Towers International Property S.R.L.	GTC S.A.	Romania	100%	100%
Galleria Shopping Center S.R.L. (formerly "International Hotel and Tourism S.R.L.")	GTC S.A.	Romania	100%	100%
BCG Investment B.V.	GTC S.A.	Netherlands	100%	100%
Green Dream S.R.L.	GTC S.A.	Romania	100%	100%
Aurora Business Complex S.R.L	GTC S.A.	Romania	71.5%	71.5%
Bucharest City Gate B.V. ("BCG")	GTC S.A.	Netherlands	100%	100%
Cascade Building S,R,L (2)	GTC S.A.	Romania	100%	-
City Gate Bucharest S.R.L.	BCG	Romania	100%	100%
Mablethompe Investitii S.R.L.	GTC S.A.	Romania	100%	100%
Venus Commercial Center S.R.L.	GTC S.A.	Romania	100%	100%
Beaufort Invest S.R.L.	GTC S.A.	Romania	100%	100%
Fajos S.R.L.	GTC S.A.	Romania	100%	100%
City Gate S.R.L.	BCG	Romania	100%	100%
Brightpoint Investments Limited (1)	GTC S.A.	Cyprus	-	50.1%
City Rose Park SRL (previously Complexul Residential Colentina S.R.L.)	GTC S.A.	Romania	100%	100%
Operetico Enterprises Ltd.	GTC S.A.	Cyprus	66.7%	66.7%
Deco Intermed S.R.L.	Operetico Enterprises Ltd.	Romania	66.7%	66.7%
GML American Regency Pipera S.R.L.	GTC S.A.	Romania	66.7%	66.7%

(1) Liquidated
(2) Acquired in 2017

(in thousands of Euro)

8. Investment in Subsidiaries, Associates and Joint Ventures (continued)

Name	Holding Company	Country of incorporation	31 December 2017	31 December 2016
Galeria Stara Zagora EAD ("Stara Zagora") (2)	GTC S.A.	Bulgaria	-	100%
Galeria Burgas AD (2)	GTC S.A.	Bulgaria	-	80%
GTC Business Park EAD	GTC S.A.	Bulgaria	100%	100%
NRL EAD	GTC S.A.	Bulgaria	100%	100%
Advance Business Center EAD	GTC S.A.	Bulgaria	100%	100%
GTC Yuzhen Park EAD ("GTC Yuzhen")	GTC S.A.	Bulgaria	100%	100%
GTC Medj Razvoj Nekretnina d.o.o. Beograd	GTC S.A.	Serbia	100%	100%
GTC Business Park d.o.o. Beograd	GTC S.A.	Serbia	100%	100%
Commercial and Residential Ventures d.o.o. Beograd	GTC S.A.	Serbia	100%	100%
Demo Invest d.o.o. Novi Beograd	GTC S.A.	Serbia	100%	100%
Atlas Centar d.o.o. Beograd	GTC S.A.	Serbia	100%	100%
Commercial Development d.o.o. Beograd	GTC S.A.	Serbia	100%	100%
Glamp d.o.o. Beograd	GTC S.A.	Serbia	100%	100%
GTC BBC d.o.o	GTC S.A.	Serbia	100%	-
Europort Investment (Cyprus) 1 Limited	GTC S.A.	Cyprus	100%	100%
Black Sea Management LLC (3)	Europort Investment (Cyprus) 1 Limited	Ukraine	-	100%
Europort Ukraine Holdings 1 LLC	Europort Investment (Cyprus) 1 Limited	Ukraine	100%	100%
Europort Ukraine Holdings 2 LLC (1)	Europort Investment (Cyprus) 1 Limited	Ukraine	100%	100%
Europort Ukraine LL	Europort Investment (Cyprus) 1 Limited	Ukraine	100%	100%
Europort Project Ukraine 1 LLC	Europort Investment (Cyprus) 1 Limited	Ukraine	100%	100%

(1) Under liquidation
(2) Sold in May 2017
(3) Liquidated

Investment in Associates and Joint Ventures

Name	Holding Company	Country of incorporation	31 December 2017	31 December 2016
Yatelsis Viborgskaya Limited of Nicosia ("YVL")	GTC S.A.	Cyprus	50%	50%
Ana Tower Offices S.R.L. (1)	GTC S.A.	Romania	-	50%
CID Holding S.A. ("CID") (2)	GTC S.A.	Luxembourg	35%	35%

(1) sold in 2017
(2) Under liquidation

9. Events in the period

Completion of investments

In March 2017, GTC Group has completed the third building of the FortyOne complex in Belgrade.

In September 2017, GTC Group has completed and successfully opened Galeria Polnocna shopping centre in Warsaw to the public.

In December 2017, GTC Group has completed Artico office building in Warsaw.

Issuance of bonds and refinance

In January 2017, the Company issued 3-year Schuldschein loan in the total amount of EUR 10 million.

In March 2017, the Company issued 3-year Euro denominated bonds, listed on WSE in the total amount of EUR 18.5 million.

In March 2017, GTC signed a prolongation of the loan agreement for Corius building, part of Aeropark Business Centre office complex.

In June 2017, the Company issued 3-year Euro denominated bonds, listed on WSE in the total amount of EUR 40 million.

In December 2017, the Company issued 3-year Euro denominated bonds, listed on WSE in the total amount of EUR 10.1 million.

In December 2017, the Company refinanced Avenue Mall shopping centre. The total loan amounts to Euro 50 million. The proceeds from refinance received in January 2018.

In December 2017, the Company refinanced Galeria Polnoca shopping centre. The total loan amounts to Euro 200 million.

Sale of Galeria Burgas and Galeria Stara Zagora

On 4 May 2017 the Company signed final agreement for the sale of its subsidiaries Galeria Burgas AD and Galeria Stara Zagora EAD, which hold shopping centres in Bulgaria in line with its strategy to focus its investment on capital cities.

Distribution of dividend

In May 2017, the Company's shareholders adopted a resolution regarding distribution of dividend in the amount of PLN 124.3 million (Euro 29.5 million), and allowing the Company's shareholders to elect to receive the dividend in the form of newly issued shares instead of cash.

In June 2017, the Company issued 10,087,026 series L Shares to the Company's shareholders who elected to receive the dividend in shares (Euro 21.4 million), and paid dividend in the amount of Euro 8.1 million to the remaining shareholders.

9. Events in the period (continued)

Acquisition

In May 2017, the Group acquired a subsidiary, which holds a land plot in Budapest, Hungary ("Kompakt") for a total amount of Euro 12.5 million. The Group intends to build an office building on the plot.

In June 2017, the Group acquired a land plot in Bucharest, Romania (Rose Garden Office) for a total amount of Euro 10.5 million. The Group intends to build an office building on the plot.

In July 2017, the group acquired a subsidiary, which owns Cascade office building in Bucharest, for a total amount of Euro 3.3 million (net of liabilities).

In September 2017, the group acquired Belgrade Business Center in Serbia from a subsidiary of the Company's main shareholder, for a total amount of Euro 36.8 million. The amount of Euro 34.8 million has been paid. The remaining Euro 2 million will be paid subject to the seller fulfilling certain conditions.

In December 2017, the Group acquired a land plot in Zagreb, Croatia (Matrix future phases) for a total amount of Euro 12.3 million. The Group intends to build office buildings on the plot.

10. Revenue from operations

Revenue from operations comprises of the following:

	2017	2016
Rental revenue	91,084	86,509
Service revenue	31,525	27,832
Residential revenue	6,128	5,960
	128,737	**120,301**

Rental income includes turnover rent for the year ended 31 December 2017 of Euro 1,733 thousand (2016: Euro 2,201 thousand).

The Group has entered into various operational lease contracts on its property portfolio in Poland, Romania, Croatia, Serbia and Hungary. The commercial property leases typically include clauses to enable periodic upward revision of the rental charge according to European CPI.

Future minimum rental receivables under operating leases from completed projects are, as follows (in millions of Euro):

	31 December 2017	31 December 2016
Within 1 year	105	82
After 1 year, but not more than 5 years	229	199
More than 5 years	44	41
	378	**322**

The majority of revenue from operations is earned predominantly on the basis of amounts denominated in, directly linked to or indexed by reference to the Euro.

(in thousands of Euro)

11. Cost of operations

Costs of operations comprise the following:

	2017	2016
Rental and service costs	32,081	27,890
Residential costs	4,515	5,065
	36,596	**32,955**

Majority of service costs represents external services costs. Service costs relate to investment properties, which generate rental income.

12. Selling expenses

Selling expenses comprise of the following:

	2017	2016
Advertising and marketing	826	2,097
Payroll and related expenses	1,285	1,139
	2,111	**3,236**

13. Administration expenses

Administration expenses comprise of the following:

	2017	2016
Remuneration and fees	6,959	7,194
Audit and valuations	1,081	1,141
Legal and tax advisers	1,074	964
Office and insurance expenses	1,010	1,031
Travel expenses	426	337
Supervisory board remuneration fees	108	84
Depreciation	528	468
Investors relations and other expenses	358	121
Total before share based payment	**11,544**	**11,340**
Share based payment	3,698	894
Total	**15,242**	**12,234**

(in thousands of Euro)

14. Financial income and financial expense

Financial income comprise of the following:

	2017	**2016**
Interest on loans granted to associates and joint ventures	79	899
Interest on deposits and other	155	425
	234	**1,324**

Financial expense comprise of the following:

	2017	**2016**
Interest expenses (on financial liabilities that are not fair valued through profit or loss) and other charges	(26,588)	(25,951)
Change in fair value of financial instruments	284	(1,542)
Loan raising amortization	(2,544)	(2,007)
	(28,848)	**(29,500)**

The average interest rate (including hedges) on the Group's loans as of 31 December 2017 was 2.8% p.a. (3.2% p.a. as of 31 December 2016).

(in thousands of Euro)

15. Segmental analysis

The operating segments are aggregated into reportable segments, taking into consideration the nature of the business, operating markets and other factors. GTC operates in four core markets: Poland, Budapest, Bucharest and Belgrade. Additionally, GTC operates in Zagreb and starting from September 2017 its operation in Bulgaria is solely in Sofia. During 2016 the GTC withdrew its operations in Slovakia.

Operating segments are divided into geographical zones, which have common characteristics and reflect the nature of management reporting structure:

a. Poland
b. Belgrade
c. Budapest
d. Bucharest
e. Zagreb
f. Bulgaria
g. Other

Segment analysis of rental income and costs for the years ended 31 December 2017 and 31 December 2016 is presented below:

	2017			2016		
Portfolio	**Revenues**	**Costs**	**Gross margin**	**Revenues**	**Costs**	**Gross margin**
Poland	63,258	(19,701)	43,557	46,264	(10,919)	35,345
Belgrade	15,529	(3,628)	11,901	12,931	(2,855)	10,076
Budapest	20,416	(4,880)	15,536	19,766	(4,666)	15,100
Bucharest	15,898	(3,683)	12,215	16,209	(4,092)	12,117
Zagreb	10,789	(3,744)	7,045	10,529	(3,370)	7,159
Bulgaria	2,847	(960)	1,887	8,782	(2,109)	6,673
Other (*)	-	-	-	5,820	(4,944)	876
Total	**128,737**	**(36,596)**	**92,141**	**120,301**	**(32,955)**	**87,346**

(*) In 2016, the Group had activity in Slovakia

(in thousands of Euro)

15. Segmental analysis (continued)

Segment analysis of assets and liabilities for the years ended 31 December 2017 is presented below:

	2017							
	Real estate	Cash and deposits	Other	Total assets	Loans and bonds	Deferred tax liability	Other	Total liabilities
Poland	1,013,842	83,696	7,549	**1,105,087**	529,541	70,242	40,196	**639,979**
Belgrade	276,218	7,454	2,138	**285,810**	74,091	14,443	13,329	**101,863**
Budapest	298,573	14,302	2,898	**315,773**	115,777	9,256	7,035	**132,068**
Bucharest	223,859	11,742	2,005	**237,606**	113,260	11,844	7,708	**132,812**
Zagreb	121,930	4,079	1,204	**127,213**	12,811	16,079	4,618	**33,508**
Bulgaria	19,028	267	729	**20,024**	-	-	335	**335**
Other (*)	9,008	37	6	**9,051**	-	-	1,181	**1,181**
Non allocated	-	79,925	2,120	82,045	188,605	3,963	7,033	**199,601**
	1,962,458	**201,502**	**18,649**	**2,182,609**	**1,034,085**	**125,827**	**81,435**	**1,241,347**

Segment analysis of assets and liabilities for the years ended 31 December 2016 is presented below:

	2016							
	Real estate	Cash and deposits	Other	Total assets	Loans and bonds	Deferred tax liability	Other	Total liabilities
Poland	800,961	42,670	18,683	862,314	388,058	45,905	22,114	456,077
Belgrade	192,663	9,894	1,582	204,139	69,060	12,044	12,444	93,548
Budapest	248,658	20,025	1,393	270,076	118,482	7,859	6,245	132,586
Bucharest	203,834	10,164	2,269	216,267	111,573	9,824	5,210	126,607
Zagreb	106,123	2,039	964	109,126	17,166	14,736	3,014	34,916
Bulgaria	67,085	3,438	3,826	74,349	34,783	-	2,074	36,857
Other (*)	9,305	68	7	9,380	-	-	1,334	1,334
Non allocated	-	89,439	4,400	93,839	153,811	7,869	5,562	167,242
	1,628,629	**177,737**	**33,124**	**1,839,490**	**892,933**	**98,237**	**57,997**	**1,049,167**

(*) Other assets include non-core land plots in Ukraine and Marlera, Croatia

In prior year financial statements segments were as following: Poland and Hungary, SEE capital cities, SEE secondary cities. During the last two years, the company sold its non-core activity in SEE secondary cities. Starting from 30 June 2017 Management decided to present each country as a separate reporting segment.

(in thousands of Euro)

16. Taxation

The major components of tax expense are as follows:

	Year ended 31 December 2017	Year ended 31 December 2016
Current corporate and capital gain tax expense	5,655	3,679
Previous year's tax	55	(3,052)
Deferred tax expense / (income)	26,384	(35,632)
	32,094	**(35,005)**

The Group companies is subject to taxes in the following jurisdictions: Poland, Serbia, Romania, Hungary, Netherlands, Ukraine, Bulgaria, Cyprus, Slovakia and Croatia. The Group does not constitute a tax group under local legislation. Therefore, every company in the Group is a separate taxpayer.

The reconciliation between tax expense and accounting profit multiplied by the applicable tax rates is presented below:

	Year ended 31 December 2017	Year ended 31 December 2016
Accounting profit before tax	188,692	124,570
Taxable expenses at the applicable tax rate in each country of activity	**34,080**	**22,810**
Tax effect of expenses that are not deductible in determining taxable profit	1,840	367
Share of profit in associates and joint ventures	(36)	911
Cancellation of provision (*)	-	(54,889)
Loss on sale of subsidiaries	(5,453)	-
Tax effect of foreign currency differences	(6,960)	480
Withholding tax	432	-
Cancellation of provision due to reduction of corporate tax rate	-	(8,439)
Previous year's tax refund	55	(3,052)
Unrecognised deferred tax asset, net	7,073	6,786
Dividend from foreign subsidiaries	940	-
Other	123	117
Tax expense / (income)	**32,094**	**(35,005)**

(*) In May 2016, the shareholders of GTC S.A. approved a cross-border merger of GTC S.A., as the acquiring company, with its 100% subsidiaries GTC Real Estate Investments Ukraine B.V. and GTC RH B.V. The cross-border merger was finalised on 30 September 2016 and was part of group restructuring process. As a consequence, temporary deferred tax differences related to interest and exchange rates on Euro denominated loans granted by GTC S.A. to GTC RH B.V. were derecognized as tax income in the amount of EUR 48 million in the year ended 31 December 2016. Additionally, certain intercompany loans were impaired, thereby reducing related provisions.

(In thousands of Euro)

16. Taxation (continued)

The components of the deferred tax balance were calculated at a rate applicable when the Group expects to recover or settle the carrying amount of the asset or liability.

Net deferred tax assets comprise the following:

	As of 1 January 2016	Credit / (charge) to income statement	As of 31 December 2016	Credit / (charge) to income statement	Impairment due to sale	As of 31 December 2017
Financial instruments	*120*	(75)	45	3,903	-	3,948
Tax loss carried forwards	8,250	3,908	12,158	(708)	(931)	10,519
Basis differences in non-current assets	-	81	81	(81)	-	-
Accruals	-	414	414	32	-	446
Netting (**)	(7,723)	(3,900)	(11,623)	(3,290)	-	(14,913)
Net deferred tax assets	**647**	**428**	**1,075**	**(144)**	**(931)**	**-**

Net deferred tax liability comprises of the following:

	As of 1 January 2015	Credit / (charge) to equity	Foreign exchange differences	Credit / (charge) to income statement	As of 31 December 2016	Credit / (charge) to income statement	Credit / (charge) to equity	First time consolidation	As of 31 December 2017
Financial instruments (*)	(51,427)	228	(215)	46,008	(5,406)	(2,558)	(367)	-	(8,331)
Basis differences in non-current assets	(89,566)	-	-	(14,888)	(104,454)	(26,883)	-	(983)	(132,320)
Other	(185)	-	-	185	-	(89)	-	-	(89)
Netting (**)	7,723	-	-	3,900	11,623	3,290	-	-	14,913
Net deferred tax liability	**(133,455)**	**228**	**(215)**	**35,205**	**(98,237)**	**(26,240)**	**(367)**	**(983)**	**(125,827)**

(*) Mostly, unrealized interest and foreign exchange differences,
(**) within a particular company, deferred tax asset are accounted separately from deferred tax liabilities as they are independent in their nature. However, as they represent a future settlement between the same parties, they are netted off for the purpose of the presentation in financial statements.

(In thousands of Euro)

16. Taxation (continued)

The enacted tax rates in the various countries were as follows:

Tax rate	Year ended 31 December 2017	Year ended 31 December 2016
Poland	19%	19%
Hungary	9%	10%
Ukraine	18%	18%
Bulgaria	10%	10%
Slovakia	21%	22%
Serbia	15%	15%
Croatia	18%	20%
Russia	20%	20%
Romania	16%	16%
Cyprus	12.5%	12.5%
The Netherlands	25%	25%

Future benefit for deferred tax assets have been reflected in these consolidated financial statements only if it is probable that taxable profits will be available when timing differences that gave rise to such deferred tax asset reverse.

Regulations regarding VAT, corporate income tax and social security contributions are subject to frequent changes. These frequent changes result in there being little point of reference, inconsistent interpretations not consistent and few established precedents that may be followed. The binding regulations also contain uncertainties, resulting in differences in opinion regarding the legal interpretation of tax regulations both between government bodies, and between government bodies and companies. Tax settlements and other areas of activity (e.g. customs or foreign currency related issues) may be subject to inspection by administrative bodies authorised to impose high penalties and fines, and any additional taxation liabilities calculated as a result must be paid together with high interest. The above circumstances mean that tax exposure is greater in Poland than in countries that have a more established taxation system.

On 15 July 2016, amendments were made to the Tax Ordinance to introduce the provisions of General Anti-Avoidance Rule (GAAR). GAAR are targeted to prevent origination and use of factitious legal structures made to avoid payment of tax in Poland. GAAR define tax evasion as an activity performed mainly with a view to realizing tax gains, which is contrary, under given circumstances, to the subject and objective of the tax law. In accordance with GAAR, an activity does not bring about tax gains, if its modus operandi was false. Any instances of (i) unreasonable division of an operation (ii) involvement of agents despite lack of economic rationale for such involvement, (iii) mutually exclusive or mutually compensating elements, as well as (iv) other activities similar to those referred to earlier may be treated as a hint of artificial activities subject to GAAR. New regulations will require considerably greater judgment in assessing tax effects of individual transactions.

The GAAR clause should be applied to the transactions performed after clause effective date and to the transactions which were performed prior to GAAR clause effective date, but for which after the clause effective date tax gains were realized or continue to be realised. The implementation of the above provisions will enable Polish tax authority challenge such arrangements realized by tax remitters as restructuring or reorganization.

Tax settlements may be subject to inspections by tax authorities. Accordingly the amounts shown in the financial statements may change at a later date as a result of the final decision of the tax authorities.

The Group companies have tax losses carried forward as of 31 December 2017 available in the amount of Euro 346 million. The expiry dates of these tax losses as of 31 December 2017 are as follows: within one year - Euro 31 million, between 2-5 years - Euro 148 million, afterwards – Euro 167 million.

(in thousands of Euro)

17. Property, Plant and Equipment

The movement in property, plant and equipment for the periods ended 31 December 2017 and 31 December 2016 was as follows:

	Buildings and related improvements	Equipment and software	Vehicles	Total
Gross carrying amount				
As of 1 January 2017	**4,904**	**2,852**	**797**	**8,553**
Additions	287	251	205	743
Transfers from investment properties	1,014			1,014
Disposals, impairments and other decreases		(1,753)	(186)	(1,939)
As of 31 December 2017	**6,205**	**1,350**	**816**	**8,371**
Accumulated Depreciation				
As of 1 January 2017	**66**	**2,111**	**374**	**2,551**
Charge for the period	235	205	89	529
Disposals, impairments and other decreases		(1,394)	(162)	(1,556)
As of 31 December 2017	**301**	**922**	**301**	**1,524**
Net book value as of 31 December 2017	**5,904**	**428**	**515**	**6,847**
Gross carrying amount				
As of 1 January 2016	**-**	**2,872**	**757**	**3,629**
Additions	668	181	318	1,167
Transfers from investment properties	4,236	-	-	4,236
Disposals, impairments and other decreases	-	(201)	(278)	(479)
As of 31 December 2016	**4,904**	**2,852**	**797**	**8,553**
Accumulated Depreciation				
As of 1 January 2016	**-**	**2,045**	**514**	**2,559**
Charge for the period	66	305	97	468
Disposals, impairments and other decreases	-	(239)	(237)	(476)
As of 31 December 2016	**66**	**2,111**	**374**	**2,551**
Net book value as of 31 December 2016	**4,838**	**741**	**423**	**6,002**

(in thousands of Euro)

18. Investment Property

Investment properties that are owned by the Group are office and commercial space, including property under construction:

Investment property can be split up as follows:

	31 December 2017	31 December 2016
Completed investment property (1)	1,649,183	1,261,044
Investment property under construction (1)	148,400	240,726
Investment property landbank at cost	139,258	102,905
Total	**1,936,841**	**1,604,675**

(1) An office building in Serbia valued at Euro 39.9 million, which is currently under reconstruction, was transferred from completed investment property to investment property under construction.

The movement in investment property for the periods ended 31 December 2017 and 31 December 2016 was as follows:

	Level 2	Level 3	Total
Carrying amount as of 1 January 2016	**771,232**	**517,297**	**1,288,529**
Capitalised subsequent expenditure	14,712	82,254	96,966
Reclassified after completion	23,844	(23,844)	-
Purchase of completed assets and land	122,298	17,348	139,646
Adjustment to fair value / impairment	31,491	54,522	86,013
Disposals of assets	-	(10,316)	(10,316)
Sale of subsidiaries	-	(4,878)	(4,878)
Purchase of subsidiaries	-	12,951	12,951
Reclassified to fixed assets	(2,927)	(1,309)	(4,236)
Carrying amount as of 31 December 2016	**960,650**	**644,025**	**1,604,675**
Hierarchy level reclassification (5)	358,200	(358,200)	
Capitalised subsequent expenditure	20,111	145,478	165,589
Purchase of completed buildings (6)		36,857	36,857
Purchase of land plots (4)		28,526	28,526
Purchase of subsidiaries holding land plots (4)	9,569	12,500	22,069
Adjustment to fair value / (impairment)	33,774	114,428	148,202
Land Disposals (3)		(1,727)	(1,727)
Classified to assets held for sale		(4,336)	(4,336)
Sale of subsidiaries (2)		(62,000)	(62,000)
Classified to fixed assets (1)	(1,014)		(1,014)
Carrying amount as of 31 December 2017	**1,381,290**	**555,551**	**1,936,841**

(1) Office space for own use

(2) Galeria Burgas and Galeria Stara Zagora in Bulgaria

(3) Commercial land plot in Konstancin, Poland

(4) The Group acquired 3 landplots in Budapest, Bucharest and Zagreb (see note 9)

(5) Galeria Polnocna was reclassified after its completion

(6) BBC in Belgrade

(in thousands of Euro)

18. Investment Property (continued)

Fair value and impairment adjustment consists of the following:

	2017	2016
Adjustment to fair value of completed investment properties	43,204	34,476
Adjustment to fair value of investment properties under construction	104,515	49,289
Reversal of impairment/(Impairment) adjustment	483	2,248
Total adjustment to fair value / (impairment) of investment property	**148,202**	**86,013**
Reversal of impairment/(Impairment) of assets held for sale	1,423	(1,409)
Impairment of residential landbank	(1,063)	(53)
Total	**148,562**	**84,551**

Assumptions used in the valuations of completed assets as of 31 December 2017 are presented below:

Portfolio	**Book value**	**GLA thousand**	**Average Occupancy**	**Actual Average rent**	**Average ERV**	**Fair Value Hierarchy Level**
	‘000 Euro	sqm	%	Euro/ sqm/m	Euro/ sqm/m	
Poland retail	526,700	113	93%	20.6	21.8	2
Poland office	429,979	212	89%	14.2	14.0	2
Belgrade office	163,181	76	97%	16.4	16.2	3
Budapest office	228,865	119	98%	12.1	13.3	2
Bucharest office	195,746	67	97%	18.4	17.8	2
Zagreb retail	104,712	34	99%	20.8	20.8	2
Total	**1,649,183**	**621**	**94%**	**16.1**	**16.3**	

Assumptions used in the valuations of completed assets as of 31 December 2016 are presented below:

Portfolio	**Book value**	**GLA thousand**	**Average Occupancy**	**Actual Average rent**	**Average ERV**	**Fair Value Hierarchy Level**
	‘000 Euro	sqm	%	Euro/ sqm	Euro/ sqm	
Poland retail	164,506	49	90%	19.8	19.8	2
Poland office	394,418	205	91%	13.9	13.8	2
Belgrade office	139,981	70	95%	16.3	15.7	3
Budapest office	216,206	119	96%	12.0	12.8	2
Bucharest office	185,520	62	94%	18.2	18.0	2
Zagreb retail	103,213	34	99%	20.8	20.8	3
Bulgaria retail	57,200	57	97%	10.5	10.5	3
Total	**1,261,044**	**596**	**94%**	**14.8**	**14.8**	

(in thousands of Euro)

18. Investment Property (continued)

Information regarding to investment properties under construction as of 31 December 2017 is presented below:

	Book value	Estimated area (GLA)
	'000 Euro	thousand sqm
Belgrade (Ada, GreenHeart)	106,780	80
Budapest (White House)	30,300	22
Sofia (ABC I)	8,856	1616
Zagreb (Matrix)	2,464	1010
Total	**148,400**	**128128**

Information regarding to investment properties under construction as of 31 December 2016 is presented below:

	Book value	Estimated area (GLA)
	'000 Euro	thousand sqm
Warsaw (Galeria Polnocna, Artico)	185,496	72
Belgrade (Ada, B.41)	47,473	45
Budapest (White House)	7,757	22
Total	**240,726**	**139**

Information regarding book value of investment property landbank for construction as of 31 December 2017 and 31 December 2016 is presented below:

	31 December 2017	31 December 2016
Poland	33,116	32,683
Serbia	5,454	4,390
Hungary (1)	26,671	11,300
Romania (1)	11,192	-
Bulgaria (1)	6,382	6,095
Croatia	14,280	2,420
Total	**97,095**	**56,888**

(1) The Group purchased land plots in 2017 (see note 9)

Information regarding book value of investment property landbank (long term pipeline) as of 31 December 2017 and 31 December 2016 is presented below:

	31 December 2017	31 December 2016
Poland	17,980	16,019
Hungary	8,400	12,350
Romania	9,841	11,403
Bulgaria	3,790	3,790
Ukraine	2,152	2,455
Total	**42,163**	**46,017**
Grand Total	**139,258**	**102,905**

(in thousands of Euro)

19. Inventory and Residential landbank

The movement in residential landbank and inventory for the period ended 31 December 2017 was as follows:

	Residential Inventory	Residential landbank	Total
Carrying amount as of 1 January 2016	**3,161**	**26,773**	**29,934**
Construction costs	2,460	284	2,744
Reversal of Impairment (impairment) to net realisable value	-	947	947
Cost of units sold	(266)	(4,799)	(5,065)
Disposal of subsidiary	-	(9,444)	(9,444)
Carrying amount as of 31 December 2016	**5,355**	**13,761**	**19,116**
Construction costs	2,915		2,915
Impairment	-	(1,063)	(1,063)
Cost of units sold	(4,515)		(4,515)
Carrying amount as of 31 December 2017	**3,755**	**12,698**	**16,453**

The carrying amount of inventory as of 31 December 2017 represents the inventory of 8 units in Konstancja project. As of the balance sheet date, 6 units of this inventory were pre-sold.

The carrying amount of residential landbank as of 31 December 2017 refers to two non-core land plots designated for residential development, in Marlera, Croatia and in Bucharest.

20. Escrow accounts for purchase of assets

An amount of Euro 0.8 million amount relates to payment to contractor in Whitehouse project in Budapest, which was deposited in escrow account and will be released after execution of the construction works.

21. Investment in associates and Joint ventures

The investment in associates and joint ventures comprises the following:

	31 December 2017	31 December 2016
	(unaudited)	(audited)
Russia (1)	1,303	2,843
Romania (2)	-	960
Investment in associates and joint ventures	**1,303**	**3,803**

(1) The Group has signed a sale agreement for its stake in the joint venture. The proceeds from sale are recognized in instalments until September 2018.

(2) Ana Tower was sold in 2017 with gain recognized on the transaction in the amount of EUR 186 thousand.

(in thousands of Euro)

22. Advances received

Advances received comprises the following amounts:

	31 December 2017	31 December 2016
Sale of residential units in Konstancja project	1,768	1,456
Sale of investment properties landbank	3,043	-
Rental income received in advance	2,040	-
	6,851	**1,456**

23. Derivatives

The Group holds instruments (IRS, Cap and currency forward) that hedge the risk involved in fluctuations of interest rate and currencies rates. The instruments hedge interest on loans for a period of 2-5 years

The movement in derivatives for the years ended 31 December 2017 and 31 December 2016 was as follows:

	31 December 2017	31 December 2016
Fair value as of beginning of the year	**(5,331)**	**(4,949)**
Charged to other comprehensive income	1,633	1,160
Charged to income statements	304	(1,542)
Fair value as of end of the year	**(3,394)**	**(5,331)**

For more information regarding derivatives, see note 39

24. Trade and other payables

The movement in trade and other payables for the year ended 31 December 2017 was as follows:

	31 December 2017
Balance as of 1 January 2017	**(36,739)**
Charges related to investing activity	(14,301)
Charges related to sale of subsidiaries	1,293
Charges related to operating activity	(511)
Charges related to Finance activity	(247)
Balance as of 31 December 2017	**(50,505)**

As of 31 December 2017 an amount of Euro 41 million of trade creditors accruals and provisions relate to development activity payables. This is planned to be financed mostly by long term loans (As of 31 December 2016 amounted to Euro 28 million).

25. Short term deposits

Short-term deposits include deposits related to loan agreements, derivatives, and other contractual commitments and can be used only for certain operating activities as determined by underlying agreements.

26. Cash and cash equivalents

Cash balance consists of cash in banks. Cash at banks earns interest at floating rates based on periodical bank deposit rates. Save for minor amount, all cash is deposited in banks.

All cash and cash equivalents are available for use by the Group.

27. Other expenses

Other expenses relate mainly to perpetual usufruct expenses of landbank, one-off expenses as well as unrecoverable taxes.

28. Deposits from tenants

Deposits from tenants represent amounts deposited by tenants to guarantee their performance of their obligations under tenancy agreements.

29. Long term payables

Long term payables represent long term commitments related with purchase of land and development of infrastructure.

30. VAT and other tax receivable

VAT and other tax receivable represent VAT receivable on the purchase of assets, and due to development activity.

(in thousands of Euro)

31. Non-controlling interest

Summarised financial information of the material non-controlling interest as of 31 December 2017 is presented below:

	Avenue Mall	Non-core projects	Total
Non-current assets	105,241	12,698	117,939
Current assets	3,114	275	3,389
Total assets	**108,355**	**12,973**	**121,328**
Equity	73,065	(64,224)	8,841
Non-current liabilities	29,432	76,922	106,354
Current liabilities	5,858	275	6,133
Total equity and liabilities	**108,355**	**12,973**	**121,328**
Revenue	10,852	-	10,852
Profit /(loss) for the year	5,200	(3,368)	1,832
NCI share in equity	**21,919**	**(17,693)**	**4,226**
NCI share in profit / (loss)	**1,560**	**(1,262)**	**298**

Summarised financial information of the material non-controlling interest as of 31 December 2016 is presented below:

	Avenue Mall	Burgas	Non-core projects	Total
Non-current assets	103,808	46,131	13,761	163,699
Current assets	2,078	3,120	444	5,643
Total assets	**105,886**	**49,251**	**14,205**	**169,342**
Equity	67,865	(3,761)	(60,856)	3,248
Non-current liabilities	32,309	50,143	72,489	154,941
Current liabilities	5,712	2,869	2,572	11,153
Total equity and liabilities	**105,886**	**49,251**	**14,205**	**169,342**
Revenue	10,591	6,169	-	16,760
Profit /(loss) for the year	6,867	5,708	(4,020)	8,555
NCI share in equity	**20,360**	**(752)**	**(16,717)**	**2,891**
NCI share in profit / (loss)	**2,060**	**1,142**	**(2,175)**	**1,027**

(in thousands of Euro)

32. Long-term loans and bonds

	31 December 2017	31 December 2016
Bonds mature in 2017-2018	23,744	67,167
Bonds mature in 2018-2019	48,872	46,088
Bonds 1019	28,959	28,967
Schuldschein 1219	15,023	5,007
Bonds 0320	18,675	-
Bonds 0620	40,070	-
Bonds 1220	10,117	-
Loan from OTP (GTC)	4,718	7,863
Loan from WBK (Globis Poznan)	15,579	16,070
Loan from WBK (Korona Business Park)	46,157	41,153
Loan from PKO BP (Pixel)	21,256	21,930
Loan from Pekao (Globis Wroclaw)	23,107	23,922
Loan from ING (Nothus and Zephirus)	20,156	21,648
Loan from Berlin Hyp (Corius)	11,064	11,405
Loan from Pekao (Sterlinga)	16,715	17,238
Loan from Pekao (Neptun)	21,076	21,735
Loan from Pekao (Sterlinga VAT)	-	5,787
Loan from Pekao (Neptun VAT)	-	7,301
Loan from Pekao (Galeria Polnocna)	199,904	48,088
Loan from mBank (Artico)	12,990	4,574
Loan from Pekao (Galeria Jurajska)	91,176	94,622
Loan from Berlin Hyp (UBP)	30,072	31,000
Loan from ING (Francuska)	22,659	23,197
Loan from OTP (Centre Point)	44,051	46,025
Loan from CIB (Metro)	16,623	17,647
Loan from Erste (Spiral)	24,791	26,067
Loan from Erste (White House)	4,817	2,109
Loan from OTP (Duna)	26,243	27,419
Loan from Erste (GTC House)	12,499	13,281
Loan from Erste (19 Avenue)	22,978	21,138
Loan from Intesa Bank (Green Heart)	13,125	13,825
Loan from Raiffeisen Bank (Forty one)	27,292	21,779
Loan from Erste (Citygate)	81,197	84,100
Loan from Transilvania (Cascade)	4,852	-
Loan from Alpha Bank (Premium)	18,126	18,875
Loan from MKB and Zagrabecka Banka (AMZ)	12,312	16,766
Loan from EBRD and Unicredit (Galeria Stara Zagora)	-	6,900
Loan from EBRD (Burgas)	-	20,272
Loans from minorities in subsidiaries	9,984	18,230
Deferred issuance debt expenses	(6,894)	(6,262)
	1,034,085	**892,933**

(in thousands of Euro)

32. Long-term loans and bonds (continued)

Long-term loans and bonds have been separated into the current portion and the long-term portion as disclosed below:

	31 December 2017	31 December 2016
Current portion of long term loans and bonds:		
Bonds mature in 2017-2018	23,744	45,000
Bonds mature in 2018-2019	32,888	880
Bonds 1019	180	189
Schuldschein 1219	23	7
Bonds 0320	177	-
Bonds 0620	70	-
Bonds 1220	13	
Loan from OTP (GTC)	3,145	3,145
Loan from WBK (Globis Poznan)	495	493
Loan from WBK (Korona Business Park)	1,401	41,153
Loan from PKO BP (Pixel)	679	677
Loan from Berlin Hyp (UBP)	932	930
Loan from Pekao (Galeria Jurajska)	3,496	3,446
Loan from Pekao (Globis Wroclaw)	23,107	816
Loan from ING (Nothus and Zephirus)	10,824	1,492
Loan from Berlin Hyp (Corius)	343	11,405
Loan from Pekao (Sterlinga)	527	525
Loan from Pekao (Neptun)	665	662
Loan from Pekao (Sterlinga VAT)	-	5,787
Loan from Pekao (Neptun VAT)	-	7,301
Loan from Pekao (Galeria Polnocna)	5,000	1,125
Loan from ING (Francuska)	542	540
Loan from OTP (Centre Point)	2,009	1,974
Loan from Erste (White House)	120	1,250
Loan from OTP (Duna)	1,197	1,176
Loan from CIB (Metro)	1,068	1,024
Loan from Erste (Spiral)	1,396	1,326
Loan from Erste (GTC House)	781	781
Loan from Erste (19 Avenue)	934	569
Loan from Intesa Bank (Green Heart)	700	700
Loan from Raiffeisen Bank (Forty one)	1,217	681
Loan from EBRD and Unicredit (Galeria Stara Zagora)		6,900
Loan from EBRD (Galeria Burgas)		1,725
Loan from Transilvania (Cascade)	240	-
Loan from MKB and Zagrabecka Banka (Avenue Mall Zagreb)	4,454	4,454
Loan from Erste (City Gate)	2,989	2,890
Loan from Alpha Bank (Premium)	1,025	631
Loans from minorities in subsidiaries		2,248
	126,381	**153,902**

(in thousands of Euro)

32. Long-term loans and bonds (continued)

	31 December 2017	31 December 2016
Long term portion of long term loans and bonds:		
Bonds mature in 2017-2018		22,167
Bonds mature in 2018-2019	15,984	45,207
Bonds 1019	28,779	28,779
Schuldschein 1219	15,000	5,000
Bonds 0320	18,498	-
Bonds 0620	40,000	-
Bonds 1220	10,104	-
Loan from OTP (GTC)	1,573	4,718
Loan from WBK (Globis Poznan)	15,084	15,577
Loan from WBK (Korona Business Park)	44,756	-
Loan from PKO BP (Pixel)	20,577	21,253
Loan from Pekao (Globis Wroclaw)	-	23,106
Loan from ING (Nothus and Zephirus)	9,332	20,156
Loan from Berlin Hyp (Corius)	10,721	-
Loan from Pekao (Neptun)	20,411	21,073
Loan from Pekao (Sterlinga)	16,188	16,713
Loan from Pekao (Galeria Polnocna)	194,904	46,963
Loan from Pekao (Galeria Jurajska)	87,680	91,176
Loan from Berlin Hyp (UBP)	29,140	30,070
Loan from mBank (Artico)	12,990	4,574
Loan from ING (Francuska)	22,117	22,657
Loan from OTP (Centre Point)	42,042	44,051
Loan from OTP (Duna)	25,046	26,243
Loan from CIB (Metro)	15,555	16,623
Loan from Erste (Spiral)	23,395	24,741
Loan from Erste (White House)	4,697	859
Loan from Erste (GTC House)	11,718	12,500
Loan from Erste (19 Avenue)	22,044	20,569
Loan from Intesa Bank (Green Heart)	12,425	13,125
Loan from Raiffeisen Bank (Forty one)	26,075	21,098
Loan from Erste (City Gate)	78,208	81,210
Loan from Alpha Bank (Premium)	17,101	18,244
Loan from Transilvania (Cascade)	4,612	-
Loan from MKB and Zagrabecka Banka (Avenue Mall Zagreb)	7,858	12,312
Loan from EBRD (Galeria Burgas)	-	18,547
Loans from minorities in subsidiaries	9,984	15,982
Deferred issuance debt expenses	(6,894)	(6,262)
	907,704	**739,031**

(in thousands of Euro)

32. Long-term loans and bonds (continued)

As securities for the bank loans, the banks have mortgage over the assets and security deposits together with assignment of the associated receivables and insurance rights.

In its financing agreements with banks, the Company undertakes to comply with certain financial covenants that are listed in those agreements. The main covenants are: maintaining a Loan-to-Value and Debt Service Coverage ratios in the company that holds the project.

In addition, substantially, all investment properties and IPUC that were financed by a lender have been pledged to secure the long-term loans from banks. Unless otherwise stated, fair value of the pledged assets exceeds the carrying value of the related loans.

Loan granted to Spiral is nominated in Hungarian Forint (HUF).

Bonds (mature in 2017-2018 and 2018-2019) are nominated in PLN. All other bank loans and bonds issued in 2016 are denominated in Euro.

As of 31 December 2017, there were no breach of loan covenants.

The movement in long term loans and bonds for the years ended 31 December 2017 and 31 December 2016 was as follows:

	31 December 2017	31 December 2016
Balance as of the beginning of the year (excluding deferred debt expenses)	**899,195**	**744,789**
Drawdowns	258,268	273,517
Repayments	(100,343)	(103,193)
First to be consolidated	4,964	2,947
Purchase of non-controlling interest	-	(9,418)
Change in accrued interest	446	876
Deconsolidation	(27,898)	(6,245)
Foreign exchange differences	6,347	(4,078)
Balance as of end of the year (excluding deferred debt expenses)	**1,040,979**	**899,195**

33. Assets held for sale

Asset held for sale includes Vasas land plot in Budapest.

(in thousands of Euro)

34. Capital and Reserves

Share capital

As at 31 December 2017, the shares structure was as follows:

Number of Shares	Share series	Total value in PLN	Total value in Euro
139,286,210	A	13,928,621	3,153,995
1,152,240	B	115,224	20,253
235,440	B1	23,544	4,443
8,356,540	C	835,654	139,648
9,961,620	D	996,162	187,998
39,689,150	E	3,968,915	749,022
3,571,790	F	357,179	86,949
17,120,000	G	1,712,000	398,742
100,000,000	I	10,000,000	2,341,372
31,937,298	J	3,193,729	766,525
108,906,190	K	10,890,619	2,561,293
10,087,026	L	1,008,703	240,855
470,303,504		**47,030,350**	**10,651,095**

All shares are entitled to the same rights.

Shareholders who as at 31 December 2017 held above 5% of the Company shares were as follows:

- LSREF III
- PZU OFE
- AVIVA OFE BZ WBK

Capital reserve

Capital reserve represents a loss attributed to non-controlling partners of the Group, which crystalized once the Group acquired the non-controlling interest in the subsidiaries of the Group.

Since 30 June 2017, the statutory financial statements of GTC S.A. are prepared in accordance with IFRS. Dividends may be distributed based on the net profit reported in the standalone annual financial statements prepared for statutory purposes.

On 16 May 2017, the Company held an ordinary shareholders meeting. The ordinary shareholders meeting decided that the loss for the year 2016 presented in the financial statements of Globe Trade Centre S.A. prepared in accordance with the Polish Accounting Standards shall be presented under Retained earnings.

(in thousands of Euro)

35. Provision for share based payments

Phantom shares

Certain key management personnel of the Company are entitled to specific payments resulting from phantom shares in the Company (the "Phantom Shares").

The Phantom shares (as presented in below mentioned table) have been accounted for based on future cash settlement.

Strike (PLN)	Blocked	Vested	Total
9.67	105,000		105,000
7.73	100,000	50,000	150,000
6.82	3,876,400	4,044,800	7,921,200
Total	**4,081,400**	**4,094,800**	**8,176,200**

As at 31 December 2017, phantom shares issued were as follows:

Last exercise date	Strike (in PLN)	Number of phantom shares
30/06/2019	6.82	1,894,400
31/12/2020	7.73	150,000
30/06/2021	6.82	1,275,200
15/08/2021	6.82	3,036,000
31/12/2021	6.82	1,412,000
31/12/2021	9.73	105,000
30/06/2022	6.82	303,600
Total		**8,176,200**

The Phantom shares (as presented in above mentioned table) have been provided for according to cash payments method.

(in thousands of Euro)

36. Earnings per share

Basic earnings per share were calculated as follows:

	Year ended 31 December 2017	Year ended 31 December 2016
Profit for the period attributable to equity holders (Euro)	156,300,000	158,548,000
Weighted average number of shares for calculating basic earnings per share	465,467,259	460,216,478
Basic earnings per share (Euro)	0.34	0.34

There have been no potentially dilutive instruments as at 31 December 2017 and 31 December 2016.

37. Related party transactions

The Company provides asset management services to subsidiaries controlled by Lone Star, which own real estate projects.

Transactions with the related parties are arm's length transactions.

The transactions and balances with related parties are presented below:

	Year ended 31 December 2017	Year ended 31 December 2016
Transaction		
Asset management services	619	641
Interest income from associates and joint Ventures	79	899
Supervisory board remuneration fees	110	84
Balances		
Receivables from related party	188	197
Investment in joint ventures and associates	1,303	3,803

In September 2017, the group acquired Belgrade Business Center in Serbia from a subsidiary of the Company's main shareholder, for a total amount of Euro 36.8 million. The amount of Euro 34.8 million has been paid. The remaining Euro 2 million will be paid subject to the seller fulfilling certain conditions.

Management and Supervisory Board remuneration for the year ended 31 December 2017, amounted to EUR 0.89 million, and 819,200 phantom shares were vested. Management and Supervisory Board remuneration for the year ended 31 December 2016, amounted to EUR 0.98 million, and 716,800 phantom shares were vested.

38. Commitments, contingent liabilities and Guarantees

Commitments

As of 31 December 2017 (31 December 2016), the Group had commitments contracted for in relation to future building construction without specified date, amounting to Euro 99 million (Euro 126 million). These commitments are expected to be financed from available cash and current financing facilities, other external financing or future instalments under already contracted sale agreements and yet to be contracted sale agreements.

Guarantees

GTC gave guarantees to third parties. As of 31 December 2017 the guarantees granted amounted to Euro 2 million.

Additionally, the Company gave typical warranties in connection with sale of its assets, under the sale agreements, and construction cost-overruns guarantees to secure construction loans. The risk involved in above warranties and guarantees is very low.

Croatia

In relation to the Marlera Golf project in Croatia, part of the land is held on a lease basis from the State. There is furthermore a Consortium agreement with the Ministry of Tourism of Croatia (Ministry) which includes a deadline for the completion of a golf course that has expired in 2014. The Company has taken active steps to achieve an extension of the period for completing the project. In February 2014, the Company received a draft amendment from the Ministry expressing its good faith and intentions to prolong the abovementioned timeline however the amendment was not formalized. Since 2015 parliamentary elections have taken place twice, the most recent being in September 2016. This temporarily froze the formalization of the amendment. Towards the end of 2016 contact was established with the newly formed Government who have requested a rewording of the amendment which is currently being reviewed by the relevant ministries. Since formalization of the amendment is no longer at the sole discretion of the Group, the Management has decided to revalue the freehold asset in assuming no development of the golf course project. As of 31 December 2017 the book value of the investment in Marlera was assessed by an independent valuer at Euro 6.9 million and is assumed to be fully recoverable.

(in thousands of Euro)

39. Financial instruments and risk management

The Group's principal financial instruments comprise bank and shareholders' loans, hedging instruments, trade payables and other long-term financial liabilities. The main purpose of these financial instruments is to finance the Group's operations. The Group has various financial assets such as trade receivables, loans granted, derivatives and cash and short-term deposits.

The main risks arising from the Group's financial instruments are cash flow interest risk, liquidity risk, foreign currency risk and credit risk.

Interest rate risk

The Group exposure to changes in interest rates which are not offset by hedge relates primarily to the Group's long-term debt obligations and loans granted.

The Group's policy is to obtain finance bearing variable interest rate. To manage the interest rate risk in a cost-efficient manner, the Group enters into interest rate swaps or cap transactions.

The majority of the Group's loans are nominated or swapped into Euro.

A 50bp change in EURIBOR rate would lead to Euro 1,698 thousand change in profit (loss) before tax.

Foreign currency risk

The group enters into transactions in currencies other than the Group's functional currency. Therefore it hedges the currency risk by either matching the currency of the inflow, outflow and cash and cash equivalent with that of the expenditures.

The table below presents the sensitivity of profit (loss) before tax due to change in foreign exchange:

	2017 PLN/Euro				2016 PLN/Euro			
	-10%	**-5%**	**+5%**	**+10%**	**-10%**	**-5%**	**+5%**	**+10%**
Cash and cash equivalents	2,556	1,278	(1,278)	(2,556)	3,390	1,695	(1,695)	(3,390)
Trade and other receivables	768	384	(384)	(768)	1,848	924	(924)	(1,848)
Trade and other payables	(2,352)	(1,176)	1,176	2,352	(1,792)	(876)	876	1,792
Short term loans	-	-	-	-	(1,310)	(654)	654	1,310
Bonds	(7,262)	(3,631)	3,631	7,262	(11,326)	(5,663)	5,663	11,326

Exposure to other currencies and other positions in statement of financial position are not material.

(in thousands of Euro)

39. Financial instruments and risk management (continued)

Credit risk

Credit risk is the risk that a party to a financial instrument will fail to discharge an obligation. To manage this risk the Group periodically assesses the financial viability of its customers. The Group does not expect any counter parties to fail in meeting their obligations. The Group has no significant concentration of credit risk with any single counterparty or Group counterparties.

With respect to trade receivables and other receivables that are neither impaired nor past due, there are no indications as of the reporting date that those will not meet their payment obligations.

With respect to credit risk arising from the other financial assets of the Group, which comprise cash and cash equivalents and blocked deposits the Group's exposure to credit risk equals to the carrying amount of these instruments.

The maximum exposure to credit risk as of the reporting date is the full amount presented.

There are no material financial assets as of the reporting dates, which are overdue and not impaired. There are no significant financial assets impaired.

Liquidity risk

As at 31 December 2017, the Group holds Cash and Cash Equivalent (as defined in IFRS) in the amount of approximately EUR 150 million. As described above, the Group attempts to efficiently manage all its liabilities and is currently reviewing its funding plans related to: (i) debt servicing of its existing assets portfolio; (ii) capex; and (iii) development of commercial properties. Such funding will be sourced through available cash, operating income, sales of assets and refinancing. The Management Board believes that based on its current assumptions, the Group will be able to settle all its liabilities for at least the next twelve months.

Repayments of long-term debt and interest are scheduled as follows (Euro million):

	31 December 2017	**31 December 2016**
First year	150	176
Second year	157	130
Third year	240	149
Fourth year	186	184
Fifth year	66	166
Thereafter	334	176
	1,133	**981**

The above table does not contain payments relating to market value of derivative instruments. The Group hedges significant parts of the interest risk related to floating interests rate with derivative instruments. Management plans to refinance some of the repayment amounts.

All derivative instruments mature within 1-5 years from the balance sheet date.

39. Financial instruments and risk management (continued)

Fair Value

As of 31 December 2017 and 2016, all bank loans bear floating interest rate (however, as of 31 December 2017 and 2016, 90% and 70% of loans are hedged). The fair value of the loans which is related to the floating component of the interest equals to the market rate.

Fair value of all other financial assets/liabilities equals to carrying value.

For fair value of investment property please refer to note 18.

Fair value hierarchy

As at 31 December 2017, the Group held several hedge instruments carried at fair value on the statement of financial position.

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities,

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly,

Level 3: techniques which use inputs that have a significant effect on the recorded fair value that are not based on observable market data.

Valuations of hedges are considered as level 2 fair value measurements. During the year ended 31 December 2017 and 31 December 2016, there were no transfers among Level 1 and Level 3 fair value measurements.

Price risk

The Group is exposed to fluctuations of in the real estate markets in which it operates. These can have an effect on the Group's results. Further risks are detailed in the Management Report as of 31 December 2017.

Capital management

The primary objective of the Group's capital management is to provide for operational and value growth while prudently managing the capital and maintaining healthy capital ratios in order to support its business and maximise shareholder value.

The Group manages its capital structure and adjust it to dynamic economic conditions. While observing the capital structure, the Group decides on leverage policy, loans raising and repayments, investment or divestment of assets, dividend policy and capital raise, if needed.

No changes were made in the objectives, policies or processes during the years ended 31 December 2017 and 31 December 2016.

(in thousands of Euro)

39. Financial instruments and risk management (continued)

The Group monitors its gearing ratio, which is Gross Project and Corporate Debt less Cash & Deposits, (as defined in IFRS) divided by its real estate investment value. The Group's policy is to maintain the gearing ratio at the level not higher than 50%.

	31 December 2017	31 December 2016
(1) Loans, net of cash and deposits (*)	829,492	703,229
(2) Investment properties, inventory and assets held for sale	1,958,407	1,623,790
Gearing ratio [(1)/(2)]	42.4%	43.3%

(*) Excluding loans from joint ventures and minorities and deferred issuance debt expenses.

40. Subsequent events

In March 2018, the Company issued 3-year Euro denominated bonds, listed on WSE in the total amount of EUR 20.5 million.

41. Approval of the financial statements

The financial statements were authorised for issue by the Management Board on 20 March 2018.

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INDEPENDENT AUDITOR'S REPORT ON THE AUDIT OF THE ANNUAL CONSOLIDATED FINANCIAL STATEMENTS

To the General Meeting and Supervisory Board of Globe Trade Centre S.A.

The audit report on the annual consolidated financial statements

We have audited the accompanying annual consolidated financial statements for the year ended 31 December 2017 of Capital Group of Globe Trade Centre S.A. ('the Group'), for which the holding company is Globe Trade Centre S.A. ('the Company') located in Warsaw at 17 Stycznia 45A, containing the consolidated statement of financial position as at 31 December 2017, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity, the consolidated statement of cash flow for the period from 1 January 2017 to 31 December 2017 and notes to the consolidated financial statements ('the accompanying consolidated financial statements').

Responsibilities of the Company's Management and members of the Supervisory Board for the consolidated financial statements

The Company's Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Accounting Standards, International Financial Reporting Standards and related interpretations announced in the form of European Commission decrees and other applicable laws, as well as the Company's Statute. The Company's Management is also responsible for such internal control as determined is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In accordance with the Accounting Act of 29 September 1994 (the 'Accounting Act'), the Company's Management and the members of the Company's Supervisory Board are required to ensure that the accompanying consolidated financial statements meet the requirements of the Accounting Act.

Auditor's responsibility

Our objective was to express an opinion on whether the accompanying consolidated financial statements give a true and fair view of the financial position and results of the operations of the Group in accordance with International Accounting Standards, International Financial Reporting Standards and related interpretations announced in the form of European Commission regulations and adopted accounting policies.

We conducted our audit of the accompanying consolidated financial statements in accordance with:

- Act of 11 May 2017 on Statutory Auditors, Audit Firms and Public Oversight ('Act on Statutory Auditors'),
- National Auditing Standards in the wording of the International Auditing Standards adopted by the resolution no. 2783/52/2015 of the National Council of Statutory Auditors of 10 February 2015 with subsequent amendments,
- Regulation (EU) No. 537/2014 of the European Parliament and of the Council of 16 April 2014 on specific requirements regarding statutory audit of public-interest entities and repealing Commission Decision 2005/909/EC ("Regulation 537/2014").

Those regulations require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

The purpose of the audit is to obtain reasonable assurance as to whether the consolidated financial statements as a whole were prepared based on properly maintained accounting records and are free from material misstatement due to fraud or error, and to issue an independent auditor's report containing our opinion. Reasonable assurance is a high level of assurance, but it is not guarantee that an audit conducted in accordance with the above mentioned standards will always detect material misstatements. Misstatements may arise as a result of fraud or error and are considered material if it can reasonably be expected that individually or in aggregate, they could influence economic decisions of the users taken on the basis of these consolidated financial statements. The risk of not detecting a material misstatement due to fraud is higher than the risk of not recognizing a material misstatement due to an error, as fraud may involve collusion, falsification, deliberate omissions, misleading or circumventing internal control and may affect every area of law and regulation, not just this directly affecting the consolidated financial statements.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the presentation of the consolidated financial statements.

The scope of the audit does not include assurance on the future profitability of the audited Group nor effectiveness of conducting business matters of the Group now and in the future by the Company's Management Board.

In accordance with International Auditing Standard 320 section 5 the concept of materiality is applied by the auditor both in planning and performing the audit, and in evaluating the effect of identified misstatements on the audit and of uncorrected misstatements, if any, on the consolidated financial statements and in forming the opinion in the auditor's report. Hence all auditor's assertions and statements contained in the auditor's report, including those on other information or regulatory requirements, are made with the contemplation of the qualitative and quantitative materiality levels established in accordance with auditing standards and auditor's professional judgement.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion. The opinion is consistent with the additional report to the audit committee issued on the date of this report.

Independence

While conducting our audit, the key certified auditor and the audit firm remained independent of the entities comprising the Group in accordance with the regulations of Act on Statutory Auditors, Regulation 537/2014 and principles of professional ethics adopted by resolutions of the National Council of Statutory Auditors.

Based on our best knowledge and belief, we declare that we have not provided non-audit services, that are prohibited based on article 136 of the Act on Statutory Auditors and article 5, point 1 of Regulation 537/2014, to the Company.

Appointment of the audit firm

We were appointed to audit the consolidated financial statements based on the Company's Supervisory Board resolution dated 10 November 2015. We have been auditing the consolidated financial statements of the Company consecutively since the beginning of the financial year ended 31 December 2002; this is for 16 years.

Most significant assessed risks

In the course of our audit we have identified the below described most significant assessed risks of material misstatement (key audit matters), including due to fraud and we designed appropriate audit procedures in response to those risks. Where we considered to be relevant in order to understand the nature of the identified risk and audit procedures performed we have also included key observations arising with respect to those risks.

These matters were addressed in the context of our audit of the accompanying consolidated financial statements as a whole, and in forming our opinion thereon. Therefore we do not provide a separate opinion on these matters.

description of the nature of the risk of material misstatement (key audit matters)	*audit procedures in response to the identified risk*
1. Valuation of investment properties Referring to note 18 of audited consolidated financial statements and paragraph 7c) of accounting policies, investment property constitutes more than 80 % of total assets of	We have gained understanding of the valuation process, performed a walkthrough and evaluated the design of controls related to valuation of investment properties.

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GTC S.A. consolidated accounts as at 31 December 2017. Investment property comprise mainly of two categories: completed investment property measured at fair value and investment property under construction, measured either at cost or at fair value, if certain criteria specified in accounting policies are met. The fair value of the investment property depends typically on external valuations, that take into account also Management judgements, assumptions and estimates such as future rents, occupancy, rent-free periods and yields. Inputs used to measure fair value of Group's investment properties are categorized into second and third levels of the fair value hierarchy. The valuations are carried out by third party appraisers. The appraisers are engaged by the Group and perform their work in accordance with applicable valuation and professional standards. The valuers used by the Group are firms, with considerable experience in the markets where GTC operates.	We have discussed with Management current market situation in various geographies the Group operates in and obtained understanding of the Management's view in that respect. We focused our analysis on properties selected on a sample basis including assets that are of highest value, have been recently acquired or those showing significant change in value. We read the valuation reports and models for properties and evaluated that the valuation approach was suitable for use in determining the carrying value for the purpose of the consolidated financial statements and appropriate in the circumstances. In addition, we carried out substantive audit procedures, on a sample basis, to evaluate the accuracy of the property information provided to the appraisers by the Management, as well as, we verified mathematical accuracy of the valuation model. We evaluated the objectivity, independence and expertise of the external appraisers, evaluated the appropriateness of the property related data, including estimates as used by the external appraisers. In particular, we compared the applied investment yields to an expected estimated range, including reference to published benchmarks. We also considered the reasonableness of other assumptions that are not so readily comparable with published benchmarks, such as Estimated Rental Value, void rates and rent free periods. Where assumptions were outside the expected range or otherwise unusual, and/or valuations showed unexpected movements, we undertook further investigations and, when necessary, held further discussions with the external appraisers and the Management. We have performed analytical review and evaluated the reasonableness of fair value movements in correspondence with expectations we built in relation to current market benchmarks and knowledge gained during the audit process.

	We engaged EY internal real estate and valuation specialists to assist us in evaluation of the appraisals. We also evaluated the adequacy of the disclosures relating to the assumptions used in the valuations in note 18 of the consolidated financial statements.
<u>2. Financing and loan covenants</u> As at 31 December 2017, the outstanding amount of Long term loans and borrowings in the Group consolidated financial statements exceed 45% of total assets. As described in note 32 of the consolidated financial statements for the vast majority of loans, the companies of the Group have to meet certain covenants specified in loan agreements that mostly constitute project specific, non cross-collaterised financing. The availability of adequate funding, financing and the testing of whether the Group can continue to meet its financial covenants are significant for our audit due to dependence to a large extent on investment valuations as described in "Valuation of investment properties" paragraph. These valuations are based on estimates and assumptions, including expectations of future economic and market developments.	We have gained understanding of the financing process and performed a walkthrough of the process. We considered Company's assessment of continued covenant compliance. We analyzed debt covenant requirements including the covenant ratios and events of default. We verified management's calculation process of the covenant ratios in accordance with the loan agreements. We have walked through and tested Company's controls around debt covenant compliance. We also tested compliance with applicable financial covenants by performing recalculation of these covenants, as per 31 December 2017 on a sample basis. Furthermore, we evaluated the adequacy of the Group's disclosure regarding the covenants and loan amendments, which are disclosed in note 32 of the consolidated financial statements.

Opinion

In our opinion, accompanying consolidated financial statements:

- give a true and fair view of the financial position of the Group as at 31 December 2017 and its financial performance for the year from 1 January 2017 to 31 December 2017 in accordance with International Accounting Standards, International Financial Reporting Standards and related interpretations announced in the form of regulations of the European Commission and other applicable laws and the adopted accounting policies,
- are in respect of the form and content in accordance with legal regulations governing the Company and the Company's Statute.

Other matters

We also reported separately on the consolidated financial statements of Globe Trade Centre S.A. for the same period prepared in accordance with the International Financial Reporting Standards, as adopted by the EU using Polish zloty as the presentation currency.

Report on other legal and regulatory requirements

Opinion on the Directors' Report

Our opinion on the consolidated financial statements does not include the Directors' Report.

The Company's Management is responsible for preparation of the Directors' Report in accordance with the Accounting Act and other applicable laws. In addition, the Company's Management and members of the Company's Supervisory Board are required to ensure that the Directors' Report meets the requirements of the Accounting Act.

Our responsibility in accordance with the Act on Statutory Auditors was to issue an opinion on whether the Director's Report was prepared in accordance with relevant laws and that it is consistent with the information contained in the accompanying consolidated financial statements.

Our responsibility was also to make a statement, on whether based on our knowledge about the Company and its environment obtained during the audit of the financial statements we have identified in the Director's Report any material misstatements and to indicate the nature of each of material misstatement.

In our opinion the Directors' Report was prepared in accordance with the relevant regulations and reconciles with the information derived from the accompanying financial statements. Moreover, based on our knowledge of the Company and its environment obtained during the audit of the accompanying financial statements, we have not identified material misstatements in the Directors' Report.

Opinion on the corporate governance application representation

The Company's Management and members of the Company's Supervisory Board are responsible for preparation of the representation on application of corporate governance in accordance with the applicable laws.

In connection with the conducted audit of the consolidated financial statements, our responsibility in accordance with the Act on Statutory Auditors was to issue an opinion on whether the issuer, obliged to present a representation on application of corporate governance, constituting a separate part of the Director's Report, included in the representation information required by applicable laws and whether the related information is in accordance with applicable regulations and with the information included in the accompanying consolidated financial statements.

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In our opinion, in the representation on application of corporate governance, the Company has included information stipulated in paragraph 91, section 5, point 4, letter a, b, g, j, k and l of the Regulation of the Minister of Finance of 19 February 2009 on current and periodic information provided by issuers of securities and conditions of deeming information required by the regulations of a non-member country equal ('Regulation'). Information stipulated in paragraph 91, section 5, point 4 letter c-f, h and i of the Regulation included in the representation on application of corporate governance is in accordance with applicable laws and information included in the accompanying consolidated financial statements.

Warsaw, 20 March 2018

Key Certified Auditor

Łukasz Jarzynka
certified auditor
No. 11959

on behalf of
Ernst & Young Audyt Polska spółka
z ograniczoną odpowiedzialnością sp. k.
Rondo ONZ 1, 00-124 Warsaw
Reg. No 130

Ernst & Young Audyt Polska
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