CONSOLIDATED ANNUAL REPORT
OF GLOBE TRADE CENTRE S.A. CAPITAL GROUP
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

Place and date of publication: Warsaw, 21 March 2019

List of contents:

Ladies and Gentlemen,

2018 was another great year for GTC. The company focused on developing its projects, leasing and managing its assets combined with managing its financial sources and needs. We actively looked for acquisition of a new project with significant potential. Our results gained momentum quarter by quarter and we ended the year with €92m profit.

During the year we increased our retail portfolio via acquisition of Mall of Sofia, which together with our completed office buildings in Budapest and Belgrade, increased our portfolio by 76,800 sq m and allowed for increase in gross asset value to approximately €2.2b.

2018 was also important for GTC as we value and implemented environmental friendly initiatives. We achieved LEED Platinum for GTC White House and BREEAM Excellent for Francuska Office Centre. But we don't stop there. Currently, a number of our assets are in the certification process and we target to be fully certified during 2019. GTC is determined to ensure that both operated and newly constructed facilities meet the highest environmental standards.

Our leasing team did a tremendous job leasing and releasing ca. 190,000 sq m during the year, which is 43% more than we achieved in 2017. As a results of those efforts our occupancy remained stable at high 93% and our recently completed buildings are almost fully let while all properties under construction are with high pre-lease levels.

Unique self-funded development pipeline

During 2018, our development activity has progressed significantly. We completed GTC White House, a new A-class office building in Budapest with total leasable area of 21,500 sq m, and acquired new plot adjacent to Center Point 1 and 2 for the development of Center Point 3. Our intention is to form an enlarged office campus of approximately 78,000 sq m, which will provide comfort to tenants and economies of scale. We also completed the modernization of two office buildings in our Green Heart project in Belgrade, which added another 21,600 sq m to the office portfolio.

Construction of our new assets has been progressed significantly over the year. With majority of the completions scheduled for Q2 2019 and pre-leased significantly, we will increase the NOI and recurring cash flow in 2019. These assets include Ada Mall, two new Green Heart offices, Advance Business Center I in Sofia and Matrix B in Zagreb.

Additionally, our project teams are preparing new projects that we plan to start in 2019.

Improvement in key operating statistics

In 2018, we put a great deal of effort into our portfolio in order to keep our already impressive overall occupancy at 93%. Our office portfolio noted success with letting out a total of ca. 160,000 sq m. Within our retail portfolio, we let out ca.30,000 sq m. Moreover, we managed to improve the retail occupancy to 95%. Our in-place rent increased 14% to €126m as a result of lease up and improvement in rents. 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 and we will further focus on improving in-place rent.

We also on modernized some of our assets, refreshing their common areas and operating systems, and improving their green space in and outside the buildings.

Finance

2018 was intensive and fruitful. We managed to gain value to our shareholders thanks to our self-propelling growth, including expansion of our portfolio and strong refinancing activity. We are satisfied that major shareholders decided to reinvest their dividend proceeds into new shares benefiting further from the growth that we offer. We repaid our due loans and bonds of approx. €162m. We raised corporate debt of €20m and borrowed €171m in construction and investment loans. We also run the process of credit rating which certifies GTC's financial quality and expands GTC's ability to raise finance in the future. This is done while keeping the overall leverage at a level of ca. 45% at the end of the year. Total finance costs decreased for the third consecutive year to historic low of 2.7% p.a. (2.8% p.a. in 2017, and 3.2% in 2016).

All these factors, in particular the acquisitions and savings in finance costs, contributed to an increase in our FFO from €47m to €61m in 2018. This reflects the significant operational progress and turnaround success that GTC achieved last year and earlier and allows to propose the dividend of PLN 0.37 per share, which reflects ca. 12% increase over 2017 dividend.

2019 Total return strategy

In 2019 GTC targets to continue the growth path it performed, by growing its completed asset portfolio, advancing the development projects and completing them successfully during 2019-2020.

In line with our growth strategy, we target to seize selected asset acquisition opportunities in our core markets as well as selected asset sale, which will lock-in profits and return cash. This will continue to provide a Total return to our shareholders. Through a combination of efficient asset management, successful completion of development pipeline and efficient finance, GTC will aim to produce significant total returns to its shareholders.

We are confident that GTC is well-prepared for 2019 and beyond, to deliver superior value appreciation to its stakeholders.

Our stakeholders

At the summary of 2018 activity, we would like to thank sincerely our tenants and business partners, for their cooperation in 2018. We would also like to thank our shareholders for their support and confidence in our strategy. During 2018 we greatly supported our main shareholder in its efforts to consider its strategic options with regard to GTC. Finally, we would like to thank our employees, without them the achievements could not be realized. Their commitment and hard work have yielded 2018 results.

We look forward to a successful year in 2019 and are eager to continue the implementation of our growth strategy.

Thomas Kurzmann	Erez Boniel
CEO	CFO

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MANAGEMENT BOARD'S REPORT ON THE ACTIVITIES OF GLOBE TRADE CENTRE S.A. CAPITAL GROUP IN THE FINANCIAL YEAR ENDED 31 DECEMBER 2018

Table of content

Item 1. Introduction

The GTC Group is a leading real estate investor and developer focusing on Poland and five 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 2018 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 151 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 2018, the Group`s property portfolio comprised the following properties:

- 42 completed commercial buildings, including 38 office buildings and four retail properties with a total combined commercial space of approximately 682 thousand sq m of GLA, of which the Group's proportional interest amounts to approximately 672 thousand sq m of GLA;
- eight commercial buildings under construction, including seven office buildings and one shopping mall with total GLA of approximately 113 thousand sq m, of which the Group's proportional interest amounts to 113 thousand sq m of GLA;
- one completed asset held for sale;
- commercial landbank designated for future development; and
- residential landbank designated for sale.

As of 31 December 2018, the book value of the Group's portfolio amounts to €2,201,962 with: (i) the Group's completed commercial properties account for 81% thereof; (ii) commercial properties under construction – 9%; (iii) a commercial landbank intended for future development – 6%; (iv) assets held for sale – 3%, and (v) residential projects and landbank account for 1%. Based on the Group's assessment approximately 99% of the portfolio is core and remaining 1% is non-core assets, including non-core landplots and residential projects.

Additionally, the Group manages third party asset in 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 mWIG 40.

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, PLGTC0000268 and PLGTC0000276; „the Report" refers to the consolidated annual report prepared pursuant to art. 71 of the Decree of the Finance Minister of 29 March 2018 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 based 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 2018.

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, CBRE 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 2018 and 2017. 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 2018 (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 2018.

Selected financial data presented in PLN is derived from the consolidated financial statements for the 12-month period ended 31 December 2018 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			
	2018		2017	
(in thousands)	€	PLN	€	PLN
Consolidated Income Statement				
Revenues from operations	153,961	656,040	128,737	548,111
Cost of operations	(42,378)	(180,469)	(36,596)	(155,811)
Gross margin from operations	111,583	475,571	92,141	392,300
Selling expenses	(2,148)	(9,155)	(2,111)	(8,988)
Administrative expenses	(10,236)	(43,629)	(15,242)	(64,894)
Profit/(loss) from revaluation/impairment of assets, net	40,125	171,830	148,562	629,767
Share of profit/(loss) in associates	-	-	184	796
Financial income/(expense), net	(29,808)	(127,050)	(28,614)	(121,827)
Net profit / (loss)	92,020	392,892	156,598	664,459
Basic and diluted earnings per share (not in thousands)	0.19	0.82	0.34	1.42
Weighted average number of issued ordinary shares (not in thousands)	477,554,732	477,554,732	465,467,259	465,467,259
Consolidated Cash Flow Statement				
Net cash from operating activities	88,298	375,982	80,678	338,687
Net cash used in investing activities	(131,690)	(560,101)	(178,304)	(756,014)
Net cash from/(used in) financing activities	(23,169)	(98,352)	95,219	407,012
Cash and cash equivalents at the end of the period	80,456	345,961	148,746	620,405
Consolidated statement of financial position				
Investment property	1,981,961	8,522,432	1,797,583	7,497,539
Investment property landbank	131,107	563,760	139,258	580,831
Residential landbank and inventory	12,698	54,601	16,453	68,624
Assets held for sale	76,196	327,643	4,336	18,085
Cash and cash equivalents	80,456	345,961	148,746	620,405
Others	74,506	320,378	76,233	317,961
Total assets	2,356,924	10,134,775	2,182,609	9,103,445
Non-current liabilities	1,154,262	4,963.331	1,052,216	4,388,688
Current liabilities	181,867	782.025	189,131	788,847
Total Equity	1,020,795	4,389,419	941,262	3,925,910
Share capital	10,960	48,354	10,651	47,031

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 countries 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 2018. 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

GTC Dutch Holdings B.V. ("GTC Dutch"), which is fully controlled by LSREF III GTC Investments B.V., is the Group's controlling shareholder as of the date of the delivery of this Report. LSREF III GTC Investments B.V, 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 may 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 five 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 2018 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 151 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 Decemeber 2018, the Group`s property portfolio comprised the following properties:

- 42 completed commercial buildings, including 38 office buildings and four retail properties with a total combined commercial space of approximately 682 thousand sq m of GLA, of which the Group's proportional interest amounts to approximately 672 thousand sq m of GLA;
- eight commercial buildings under construction, including seven office buildings and one shopping mall with total GLA of approximately 113 thousand sq m, of which the Group's proportional interest amounts to 113 thousand sq m of GLA;
- one completed asset held for sale
- commercial landbank designated for future development; and
- residential landbank designated for sale.

As of 31 December 2018, the book value of the Group's portfolio amounts to €2,201,962 with: (i) the Group's completed commercial properties account for 81% thereof; (ii) commercial properties under construction – 9%; (iii) a commercial landbank intended for future development – 6%; (iv) assets held for sale – 3%. and (v) residential projects and landbank account for 1%. Based on the Group's assessment approximately 99% of the portfolio is core and remaining 1% is non-core assets, including non-core landplots and residential projects.

Additionally, the Group manages third party asset in 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 mWIG 40.

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

Item 4.2. Main events of 2018

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

In March 2018, the Group has completed the renovation of two office buildings (Green Heart) in Belgrade.

On 2 April 2018 GTC SA received from the majority shareholder in the Company, LSREF III GTC Investments B.V. ("Lone Star"), a notification that Lone Star decided to review its options in relation to its investment in Globe Trade Center S.A. and appointed J.P.Morgan and UBS to assist them in this strategic review.

In April 2018, the Group refinanced 19 Avenue office building in Belgrade. The total loan amounts to €24,000.

On 31 May 2018, the Company acquired a Bulgarian company, which owned a shopping mall and adjacent office building located in Sofia, Bulgaria. Mall of Sofia provides 22,400 sq m of retail space and 10,300 sq m of office space. The purchase price of the shares amounted to €39,000. Simultaneously, the Bulgarian company entered into a loan agreement with OTP BANK PLC and DSK BANK EAD. The banks granted a loan related to the Mall of Sofia in the amount of €61,400.

In May 2018, the Company's shareholders adopted a resolution regarding a distribution of dividend in the amount of PLN 0.33 per share. The Company allows its 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 2018, the Company issued 13, 233,492 series M Shares to some of the Company's shareholders €26,500 and paid a dividend in the amount of €9,700 to remaining shareholders.

In June 2018, the Group has completed the construction of GTC White House office building in Budapest.

In June 2018, the Group financed Belgrade Business Center office building in Belgrade with a bank loan. The total loan amounts to €23,000.

On 11 July 2018, the Company received from Powszechne Towarzystwo Emerytalne PZU S.A. acting on behalf of Otwarty Fundusz Emerytalny PZU „Złota Jesień" notification of changes in the shareholding of Globe Trade Centre S.A. After the registration of the increase of the share capital of the Company, OFE PZU holds 47,922,603 ordinary shares in the Company, which jointly represents 9.91% of its share capital and entitles OFE PZU to exercise 47,922,603 votes at the general meeting of the Company, i.e. 9.91% of the total number of votes at the general meeting of the Company. Pursuant to notification received on 11 July 2018 from Otwarty Fundusz Emerytalny PZU „Złota Jesień" on decreasing its direct shareholding in the Company below the 10%, the mandate of Ryszard Wawryniewicz as a Supervisory Board expired pursuant to Article 9 point 2 of the Company's Articles of Association.

On 30 July 2018, the Company received three notifications of change of shareholding in the Company from Lone Star Real Estate Partners III, L.P., LSREF III GTC Investments B.V., and a wholly-owned subsidiary of the latter, GTC Dutch Holdings B.V. Pursuant to the notifications on 24 July 2018 LSREF III GTC Investments B.V. contributed 298,575,091 shares in the Company (constituting 61.75% of the Company's share capital and entitling its holder to 61.75% of votes at the Company's general meeting) in kind to its wholly-owned (100%) subsidiary, GTC Dutch Holdings B.V., in exchange for newly-issued shares in GTC Dutch Holdings B.V., thus decreasing its direct shareholding in the Company to zero.

In August 2018, Globis Wroclaw and Santander Bank signed a new loan agreement. The total loan amounts to €23,100.

In September 2018, the Group acquired land plot near Center Point office building in Budapest for a total amount of €16,500. An office building exists on the land with a leasable area of 6,000 sq m. The Company plans to demolish the building and develop an office building with a leasable area of 35,500 sq m.

On 16 October 2018, the Company received a notification from Powszechne Towarzystwo Emerytalne PZU SA (PTE PZU S.A.) acting on behalf of Otwarty Fundusz Emerytalny PZU "Złota Jesień" (OFE PZU) that in connection with the completion on 12 October the liquidation of Pekao Otwarty Fundusz Emerytalny (Pekao OFE), resulting in the transfer of all assets of Pekao OFE to OFE PZU and PZU's contribution to all rights and obligations of Pekao OFE, the previously held share of OFE PZU in the total number of votes in Globe Trade Center S.A increased on this day to 50,985,513 (10.54% of votes).

On 31 October 2018, the Group fully repaid the bank loan granted by mBank to Artico in the amount of €13,000.

In December 2018, Artico and PKO BP signed a new loan agreement. The total loan amounted €14,500 was drawn in January 2019.

In December 2018, the Group and Raiffeisen Bank signed an agreement to refinance FortyOne office complex in Belgrade. The Group will fully repay the existing bank loan in the amount of €26,000, and draw a new loan amounted €40,000.

Events that took place after 31 December 2018:

In February 2019, the Group signed a term sheet for the sale of GTC White House office building in Budapest. Accordingly, as of 31 December 2018, the asset is presented within the assets held for sale, with a total fair value of €70,000.

On 14 February 2019, Midroog (Israel-based credit rating agency accredited by the State of Israel) assigned an A2.il rating with a stable outlook for repayment capability of debt that the Company might raise in Israel, in the amount of up to €70,000. According to Midroog Long Term Rating Scale, the assigned A2.il rating reflects that in Midroog's judgment, the Company has relatively high repayment capability for such debt, relative to other local issuers in Israel.

In March 2019, the Group and UniCredit signed a new loan agreement in the amount of €20,000 (€3,500 top up after completion, subject to agreed conditions), for the construction of Advance Business Center II

Item 4.3. Structure of the Group

The structure of Globe Trade Centre S.A. Capital Group as of 31 December 2018 is presented in the Consolidated Financial Statements for the year ended 31 December 2018 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 2018:

- Europort Ukraine Holdings 2 LLC. was liquidated,
- GTC Real Estate Vinohrady s.r.o. was liquidated,
- BCG Investment B.V. was liquidated,
- Bucharest City Gate B.V. was liquidated,
- Operetico Enterprises Ltd was liquidated,
- Yatelsis Viborgskaya Limited of Nicosia was sold,
- GTC Seven Gardens d.o.o. was established,
- Dorado 1 EOOD was acquired,

- Julesberg Sp. z o.o. is under liquidation,
- Jowett Sp. z o.o. is under liquidation,
- Riverside Apartmanok Kft. is under liquidation,
- River Loft Apartmanok Ltd. is under liquidation,
- CID Holding S.A. is under liquidation,
- GTC Business Park EAD Merged into NRL EAD.

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 market conditions and Group's strict criteria during the year 2018 the Group acquired:

- Mall of Sofia (shopping mall located in Sofia, Bulgaria)
- Sofia Tower (office building located in Sofia, Bulgaria)
- land plot near Center Point with exsisting office building (Budapest, Hungary)

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

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.

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.

During 2018 GTC Group completed 3 office buildings:

- Green Heart (two office buildings located in Belgrade, Serbia)
- GTC White House (office building located in Budapest, Hungary).

The development of projects, which as at the date of the Report were in the construction stage or the pre-construction stage, is an important value driver of the Group.

Currently, the Group has eight buildings consisting of 113,100 sq m of office and retail space under construction:

- Ada Mall - a retail and entertainment center in Belgrade with up to 34,400 sq m of GLA;
- Green Heart - a complex of five office buildings in Belgrade, Serbia with intended GLA of approximately 46,000 sq m; the Group has completed the renovation of two office buildings with 21,600 sq m;
- Advance Business Center I&II - office buildings in Sofia, Bulgaria with intended GLA of approximately 15,600 sq m and 17,900 sq m;
- Matrix A&B - office buildings in Zagreb, Croatia with intended GLA of approximately 10,400 sq m each

As of 31 December 2018, projects under construction represent approximately 9% of the Group's portfolio value.

Currently, another four buildings consisting of 101,500 sq m in of office space is in the pre-construction stage with construction to commencement during 2019:

- City Rose Park 1&2 - an office complex in Bucharest, Romania with intended GLA of approximately 35,500 sq m;
- The Twist - an office building in Budapest, Hungary with intended GLA of approximately 37,000 sq m;
- Pillar- an office complex in Budapest, Hungary with intended GLA of approximately 29,000 sq m.

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

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 2018, the book value of the Group's investment property, residential inventory, landbank and assets held for sale amounted to €2,201,962. The Groups investment properties include income generating assets (completed properties), projects under construction and commercial landbank.

Investment portfolio

As of 31 December 2018, the Group manages completed commercial properties with a combined gross rentable area of approximately 682 thousand sq m, including 38 office buildings and four shopping malls, which constituted 81% 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: BlackRock, Microsoft, Arvato Bertelsmann, Barry Callebaut, Jaguar Land Rover, IBM, KPMG, Fujitsu, 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 2018, the Group had eight office buildings and one shopping mall classified as investment under construction with a book value of €190,051, which constituted 9% of the Group's overall portfolio.

Investement property landbank

As of 31 December 2018, the Group had land classified as investment property landbank designated for future development of €131,107, which constituted 6% of the Group's overall portfolio (by value). This landbank includes projects that are on Group`s focus for coming year like: City Rose Park 1&2, The Twist, and Pillar, which constitute 2% of group's overall portfolio (30% of investment property landbank).

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

Assets held for sale

As of 31 December 2018, the Group had one office buildings and land plots classified as assets held for sale with a book value of €76,196, which constituted 3% of the Group's overall portfolio.

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 2018, the Group held residential landbank with a total value of €12,698, 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, Zagreb and Sofia. 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 investment property landbank.

Item 4.6.1.1. Overview of income generating assets

As of 31 December 2018, the Group had 42 income generating assets totaling 682 thousand sq m and valued € 1,979,158 . The average occupancy rate within the income generating portfolio was 93% as of 31 December 2018. The portfolio was valued based on average yield of 6.9%. Average duration of leases in Group`s income generating portfolio was 3 years and the average rental rate was €16.3/ sq m / month.

Approximately 53% of the income generating portfolio is located in Poland, 13% in Budapest, 11% in Bucharest, 12% in Belgrade, 6% in Zagreb and remaining 5% in Sofia.

The following table presents income generating portfolio by country in which the Group operates of 31 December 2018:

Country	Total gross leasable area (sq m)	% of GLA (sq m)	Average occupancy (%)	Book value (€)	% of total book value
Poland	325,200	48%	91%	949,540	53%
Budapest	125,500	18%	98%	237,740	13%
Belgrade	97,400	14%	94%	211,782	12%
Bucharest	66,600	10%	94%	190,036	11%
Zagreb	34,400	5%	95%	104,812	6%
Sofia	32,700	5%	93%	98,000	5%
Total	**681,800**	**100%**	**93%**	**1,791,910**	**100%**

As of 31 December 2018, properties accounted for around 60% and retail properties accounted for the remaining 40% of book value of income generating portfolio.

The following table presents income generating portfolio by main usage type as of 31 December 2018:

Usage type	Total gross leasable area (sq m)	% of GLA (sq m)	Average occupancy (%)	Book value (€)	% of total book value
Office	501,200	74%	93%	1,072,168	60%
Retail[1]	180,600	26%	95%	719,742	40%
Total	**681,800**	**100%**	**92%**	**1,791,910**	**100%**

[1]Including Avenue Center, Zagreb,Croatia and Sofia Tower, Sofia, Bulgaria

Item 4.6.1.1.1. Overview of the office portfolio

As of 31 December 2018, the Group office portfolio comprised of 38 office buildings. Total gross rentable office space was 501 thousand sq m compared to 474 sq m as of 31 December 2017. Total value of office portfolio as of 31 December 2018 was €1,072,168 compared to €1,017,771 as of 31 December 2017. Increase in value and space is mainly due to completion of two building in Green Heart project in Belgrade and exisiting office building on newly aquaired Center Point 3 plot in Budapest, partially offset by reclassification of GTC White House in Hunagry to assets held for sale. The Group's office buildings are located in Poland, and capital cities of other countries of CEE and SEE region: Budapest, Belgrade, Zagreb, Bucharest and Sofia (Avenue Center is a part of Avenue Mall Zagreb and its presented together with Avenue Mall Zagreb in retail segment as well as Mall of Sofia and Sofia Tower).

The following table presents office portfolio by country as of 31 December 2018:

Country	Total gross leasable area (sq m)	% of GLA (sq m)	Average occupancy (%)	Book value (€)	% of total book value
Poland	211,700	42%	89%	432,610	40%
Budapest	125,500	25%	98%	237,740	22%
Belgrade	97,400	20%	94%	211,782	20%
Bucharest	66,600	13%	94%	190,036	18%
Subtotal	**501,200**	**100%**	**93%**	**1,072,168**	**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 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 Poland was at the level of €14.2 /sq m/month. Book value of the office portfolio in Poland amounted to €432,610 as of 31 December 2018 compared to €429,979 as of 31 December 2017.

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%	10,600	2003
Globis Poznań	Poznań	100%	13,500	2003
Newton	Kraków	100%	10,800	2007
Edison	Kraków	100%	10,900	2007
Nothus	Warsaw	100%	9,600	2007
Zephirus	Warsaw	100%	9,600	2008
Globis Wrocław	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%	14,600	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%	7,600	2017
		Total	**211,700**	

Item 4.6.1.1.1.2 Office portfolio in Budapest

The Group's total gross rentable area in Budapest comprised 126 thousand sq m in six office buildings. The occupancy rate was at the level of 98%. The average duration of leases was 1.9 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 Budapest was at the level of €12.3 / sq m / month. Book value of the Group's office portfolio in Budapest amounted to €237,740 as of 31 December 2018, as compared to €228,865 as of 31 December 2017. An increase comes mainly from acquesition of an office building (on aquaired Center Point 3 landplot) as well as value appreciation of Duna Tower, following increase in rental rates.The increase was partially offset by reclassification of GTC White House to assets held for sale following signig term sheet for sale of the building in January 2019.

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
Center Point 3[1]	Budapest	100%	6,500	-
		Total	**125,500**	

[1]Property acquired as landbank for future development, currently with a small office building in 2018

Item 4.6.1.1.1.3 Office portfolio in Belgrade

The Group's total gross rentable area in Belgrade comprised 97 thousand sq m in eight office buildings. The occupancy rate was at the level of 94%. The average duration of leases was 2.8 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 €16.0 / sq m / month. Book value of the Group's office portfolio in Belgrade amounted to €211,782 as of 31 December 2018 compared to €163,181 as of 31 December 2017. An increase comes mainly from completion of two buildings in 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%	16,800	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	Belgrade	100%	17,700	2009
Green Heart (2 buildings)	Belgrade	100%	21,600	2018
		Total	**97,400**	

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 94%. The average duration of leases was 3 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 €18.8/ sq m / month. Book value of the Group's office portfolio in Bucharest amounted to €190,036 as of 31 December 2018, as compared to €195,746 as of 31 December 2017. An decrease comes mainly from slight decrease in book value of City Gate.

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**	

Item 4.6.1.1.1.5 Office portfolio in Zagreb

The Group's total gross rentable area in Zagreb comprises 7 thousand sq m in one office building. The occupancy rate and the book value of the Group's office portfolio in Zagreb 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 4.6.1.1.1.6 Office portfolio in Sofia

The Group's total gross rentable area in Sofia comprises 10 thousand sq m in one office building. The occupancy rate and the book value of the Group's office portfolio in Sofia are presented together with the data for mall of Sofia.

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

Property	Location	GTC's share	Total gross rentable area	Year of completion
		(%)	(sq m)	
Sofia Tower[1]	Zagreb	100%	10,300	2006
		Total	**10,300**	

[1]Property acquired in 2018

Item 4.6.1.1.2. Overview of retail portfolio

As of 31 December 2018, the Group's retail properties comprised four shopping centres with a total gross rentable area of 181 thousand sq m compared to 147 thousand sq m as of 31 December 2017. The total value of retail investment properties as of 31 December 2018 was €719,742 compared to €631,412 as of 31 December 2017. An increase in value comes mainly from acquisition of Mall of Sofia and value appreciation of Galeria Jurajska following an improvement in operations.

The following table presents retail portfolio by country as of 31 December 2018:

Country	Total gross leasable area (sq m)	% of total retail portfolio (%)	Average occupancy (%)	Book value (€)	% of total book value
Poland	113,500	63%	94%	516,930	72%
Zagreb[1]	34,400	19%	95%	104,812	15%
Sofia[1]	32,700	18%	98%	98,000	14%
Total	**180,600**	**100%**	**95%**	**719,742**	**101%**

[1] Including book value of office building

Item 4.6.1.1.2.1 Retail portfolio in Poland

The total gross rentable area of retail space in Poland comprises 113 thousand sq m in two retail scheme in Warsaw and Częstochowa. The average occupancy rate was at the level of 94%. The average duration of leases was 4.1 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 €21.1 / sq m / month. Book value of the Group's retail portfolio in Poland amounted to €516,930 as of 31 December 2018, as compared to €526,700 as of 31 December 2017. A decrease comes mainly from decrease in book value of Galeria Północna, partially offset by value appreciation of Galeria Jurajska following an improvement in operations.

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 95%. The average duration of leases was 2.6 years at the year end and applied yield was at the level of 6.7%. The average rental rate generated by the retail portfolio in Zagreb was at the level of €20.6/ sq m / month. Book value of the Group's retail portfolio in Zagreb amounted to €104,812 (including book value of Avenue Center) as of 31 December 2018 compared to €104,712 as of 31 December 2017.

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	Zagreb	70%	34,400[1]	2007
		Total	**34,400**	

[1]Including Avenue Center

Item 4.6.1.1.2.3 Retail portfolio in Sofia

The Group's total gross rentable area of retail space in Sofia comprised 33 thousand sq m (including Sofia Tower) in one retail scheme. The occupancy rate was at the level of 98%. The average duration of leases was 4.3 years at the year end and applied yield was at the level of 7.5%. The average rental rate generated by the retail portfolio in Sofia was at the level of €19.8 / sq m / month. Book value of the Group's retail portfolio in Sofia amounted to €98,000 (including book value of Sofia Tower) as of 31 December 2018.

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

Property	Location	GTC's share	Total gross rentable area	Year of completion
		(%)	(sq m)	
Mall of Sofia	Sofia	100%	32,700[1]	2006
		Total	32,700	

[1]Including Sofia Tower

Item 4.6.1.2 Overview of properties under construction

As of 31 December 2018, the Group had eight buildings under construction including one retail projects and seven office projects with a total gross rentable area of 113 thousand sq m and a book value of €190,051.

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

Property	Segment	Location	GTC's share	Total gross leasable area (sq m)	Expected completion
Ada Mall	retail	Belgrade, Serbia	100%	34,400	Q2 2019
Green Heart N1- N3	office	Belgrade, Serbia	100%	24,400	Q2 2019/ Q1 2020
Advance Business Center I	office	Bucharest, Romania	100%	15,600	Q2 2019
Matrix A	office	Zagreb, Croatia	100%	10,400	Q3 2019
Advance Business Center II	office	Bucharest, Romania	100%	17,900	Q2 2020
Matrix B	office	Zagreb, Croatia	100%	10,400	Q3 2020
Total				**113,100**	

Item 4.6.1.3. Overview of investment property 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 2018, the Group had land classified as investment property landbank designated for future commercial development with same land plots defined as for sale of €131,107. 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 planning stage:

Property	Segment	Location	GTC's share	Total gross leasable area (sq m)
City Rose Park 1&2	office	Bucharest, Romania	100%	35,500
The Twist	office	Belgrade, Serbia	100%	37,000
Pillar	office	Budapest, Hungary	100%	29,000
Total				**101,500**

In addition, Group's rich investment property 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. Assets held for sale

As of 31 December 2018, the Group held assets for sale with a total value of €76,196 which constituted 3% of the Group's overall portfolio. Asset held for sale includes office building in Budapest (GTC White House) and non-core land plots in Budapest and Bucharest.

Item 4.6.3. Residential inventory and landbank

As of 31 December 2018, the Group held residential landbank with a total value of €12,698, which constituted 1% of the Group's overall portfolio. The residential sector is not a core sector for the GTC Group and the remaining land is designated for sale.

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, CBRE 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: 2018 was a roaring success for Warsaw and it certainly seems that the sky's the limit. Demand is soaring, the vacancy rate is at its lowest since 2012, and forecasted to fall further, new supply is being fully absorbed and rents are rising. The city has entered a sustained growth path, which is evidenced by a variety of factors.

The defining trend of 2018 was, without a trace of any doubt, the extraordinary activity of flexible space operators. Last year they leased an astonishing 112,000 sq m. What stands out about those entities is the unique mix of clients they work to attract: freelancers, start-ups, small companies and large corporations. That concept brings a new model of work and interesting design ideas to the Warsaw office market, which also benefit more traditional office solutions.

Looking closely at the distribution of demand for office space in Warsaw's submarkets, the City Centre leads the way, with 239,300 sq m transacted on last year, followed by Mokotów, with 219,700 sq m leased, and third place taken by the CBD, where deals for a total of 162,000sq m were signed.

As a result of such an excellent year across the whole of Warsaw, activity by occupiers in 2018 reached a record-breaking 856,600 sq m, which was 4% higher than in 2017. In 2018 net absorption of office space in Warsaw was 50% higher than the new supply volume, which means that all the new space was absorbed by the market and then some. Another show of confidence and an excellent sign for the future of the office market in Warsaw is the expansion of companies already operating in the city.

The second widely discussed feature of Warsaw office market is the growth in supply, especially in central areas of the capital. Decreasing vacancy rates and skyrocketing demand for these locations has prompted developers to shift their attention to the CBD and the City Centre.

The new supply in 2018 totalled 232,700 sq m. The vacancy rate in Warsaw has continued to fall and by the end of 2018 it dropped to the level of 8.7%, best result since 2012. The vacancy rate in Central zones now stands at 5.4%, which is the lowest since 2009 and means that availability of lease options in existing developments here is extremely limited. In 2019, the downward trend in the vacancy rate in Warsaw will continue.

Prime headline rents rose in the central areas of Warsaw, due to the high demand, low vacancy rate and increasing construction costs. Prime rents here are currently quoted at EUR 17.0 to EUR 23.5 / sq m / month, while prime assets located in the best non-central areas lease for EUR 11.0 to EUR 15.0 / sq m / month.

Regional cities: 2018 was a year of economic prosperity for Poland. In addition to the Tholons ranking (where four Polish cities made it into Top 100 Super Cities), CEOWORLD Magazine named Poland as the second-best country to invest or do business in for 2018 (behind only Malaysia).

These spectacular achievements directly translate into the booming office market in the entire country. The year saw big players already present in Poland strengthening their positions here and also some newcomers entering regional markets.

The office market is developing dynamically. Two cities with office stock in excess of one million sq m (Kraków and Wrocław) are being chased by the Tri-City (with more than 775,000 sq m) and Katowice, which now has more than 500,000 sq m of modern office stock.

In 2018, 57 developments entered the market outside of Warsaw, offering a total of almost 511,200 sq m (a 10% increase y-o-y). Under-construction space in the major regional markets amounts to 900,000 sq m and is mainly concentrated in Kraków, Wrocław and the Tri-City.

In terms of demand in 2018, Kraków most certainly had the best year. Total take-up volume there was 208,800 sq m and accounted for 32% of all demand of the major markets in Poland (excluding Warsaw). Tenant activity in the biggest Polish cities totalled over 644,800 sq m.

The overall vacancy rate for the eight regional cities is decreasing and currently stands at 8.4%. All eight major regional cities saw their rates fall year-on-year. At the end of 2018, Szczecin replaced Poznań as the city with the lowest vacancy rate in Poland.

In terms of rental conditions in the major office markets in Poland, prices have remained relatively stable. In 2018 a few cities saw an uptick in the upper band of prime headline rents: Łódź, Poznań, Szczecin and Katowice (were also the lower band increased). Some minor changes are expected in the next few quarters.

Bucharest

In 2018, the modern office stock increased by 5%, reaching 2.91m sq m. The Bucharest market has registered seven new office buildings totalling 144,000 sq m. The quality of the modern office stock reached a balanced composition with 49% of the buildings being class A graded. The occupancy rate in the newly delivered office projects stands at 90%.

During 2018, more than 324,600 sq m were transacted on the market, 8% less than in 2017. New demand and expansions transactions gathered approximately 61,000 sq m, representing 19% of total leasing activity and 6,000 created jobs. The overwhelming majority of transactions was signed in the class A office buildings. IT and Hi-Tech sectors continue to dominate the total leasing activity with a share of 35%. CBRE estimates that 304,000 sq m will be brought to market in 2019.

The prime rent remained unchanged and is estimated at EUR 18.5 / sq m / month, while the asking rent varies from EUR 16.5 /sq m / month in the North Bucharest to EUR 10 / sq m / month in South and East Bucharest. The net effective rent is estimated at 85-90% of the headline rent.

At the end of 2018, the overall vacancy rate in Bucharest registered one of the lowest rates in recent history: 7.4% of total modern office stock.

Budapest

The Budapest office market has seen strong performance in 2018. Tenants committed to nearly 530,000 sq m of office space, reflecting a strong 13% gain on 2017's performance. Total net absorption was 228,000 sq m and as a result, the vacancy rate is down to an all-time low of 7.3% by the year-end compared to 7.5% a year earlier. However, the picture is far from homogenous across the submarkets. The Vaci Corridor, CBD and North Buda register lower vacancy rates compared to a year ago.

The average asking rent level across the available space in Budapest increased further to EUR 12.2 / sq m / month. Despite the amount of new supply, the availably of A class properties shrunk over the year and the average asking rent in this category increased to EUR 14.8 / sq m / month. Rental growth was measured in the range 5-9% across all the submarkets and quality categories.

The outlook for the office market is positive with 126,000 sq m of new office space in the pipeline for 2019. Whilst 44% of this amount is linked to pre-leases; speculative development shows improvement on previous year. Labour shortages and rapidly increasing construction costs, however, are putting pressure on the development market.

Belgrade

Following the recent market trends, the refurbishment of existing buildings continued to dominate the activity in 2018.

There were two office building completed in Belgrade during 2018, increasing the office space stock by 17,000 sq m to 782,000 sq m in total. The construction of several other projects is steadily progressing.

During the year, the market activity was driven by net take up boosted by relocations and expansions. Strong take up drove the vacancy rate down to just 3.5% in A and B class office stock. Prime rents stood at EUR 15.5-16.5 / sq m / month.

Sofia

Activity remained strong during the second half of the year with several new deliveries throughout the city totalling over 53,000 sq m.

With several projects entering the construction phase, the future stock under construction increased by around 88,000 sq m, reaching nearly 360,000 sq m in the second half of the year, with an additional 200,000 sq m in the planning stage. The majority of future projects will take place in the Suburban area of Sofia and the Center.

Due to a large number of projects in the development phase, pre-leases continued to present a significant share of the market activity. Traditionally, the demand remained strong, with IT, outsourcing and business services sectors driving the market activity.

Item 4.7.2. Retail market

Poland

Poland's total retail stock crossed the 14 million sq m of GLA threshold by the end of 2018. The nation's 419 shopping centres now offer more than 10.0 million sq m of GLA, which accounts for 71% of all stock. The remaining formats include retail parks and warehouses, which offer 3.9 million sq m of GLA (27%), and outlet centres, with 0.25 million sq m (2%).

2018 ended with 435,000 sq m of new retail space being added across all retail formats, a similar result to that of 2017, when approximately 466,000 sq m entered the market. Interestingly, no retail projects were closed in 2018, unlike the previous year.

Twenty nine new retail schemes opened in 2018: ten shopping centres, ten retail parks, eight stand-alone retail warehouses, and one outlet centre. Thirteen existing schemes were extended.

Over the year, the shopping centre density in Poland increased from 255 sq m to 262 sq m per 1,000 inhabitants, moving closer to the Western European average of 276 sq m. It should be noted, however, that these figures do not include high street retail, which is underperforming in Poland compared to Western Europe. If that is included in these statistics, the overall gap between retail density in Poland and Western Europe would continue to be profound.

There is currently around 269,000 sq m of GLA being constructed in shopping centres, of which 73% (196,000 sq m) is scheduled for delivery in 2019. That is 40% less than in the corresponding period last year.

As the retail market in Poland matures, shopping centres are seeing a steady increase in their F&B and entertainment offerings which provides excellent opportunities for further development. This goes along with the changing functionality of retail projects, which have broadened their appeal beyond the basic shopping experience. As a consequence, owners often focus on expanding the entertainment offering by providing customers with facilities such as cinemas, fitness clubs, educational zones for children, co-working spaces and libraries. In parallel, the share of grocery operators and DIY stores in the total GLA of new supply is decreasing year by year.

Although the share of e-commerce in total retail sales is rising, visiting brick-and-mortar shopping centres is still the first choice for most shoppers (according to Statista the share of e-commerce in total retail sales in 2018 was approximately 4.3%).

In 2018 retailers were open to stable, but selective expansion throughout the country. Twenty nine new international brands entered the Polish market last year, a slight increase on 2017, which confirms that Poland is still among the most attractive destinations for retailers.

2018 proved that the Polish market is heading toward omnichannel retailing. A number of new retail concepts entered the market, most often combining different distribution channels and advanced digital solutions, such as that of the IKEA store in the Blue City shopping centre in Warsaw, which is the world's first example of that concept of the company. Mergers and acquisitions proved to be a long-term trend too (e.g. OBI DIY taking a few places of the closed Praktiker stores, and Carrefour in some locations of the closed Piotr i Paweł delicatessens).

Warsaw traditionally features the highest prime shopping centre rents, peaking at EUR 130/ sq m/month. Prime rents refer to shop units of 100 sq m earmarked for fashion & accessories and located in the best-performing assets in a given city. Rental levels across other major cities remained relatively stable as compared to 2017, ranging from EUR 42/ sq m/month to EUR 60/ sq m/month.

The Sunday trading ban became a particularly contentious issue over 2018. The results of Sunday trading ban were unknown until recently. The main conclusion is that the ban in general negatively affected footfall in shopping centres, but to a lesser extent than many predicted. Despite drops in footfall, in general turnover grew. In 2018 trading was permitted on the first and last Sundays of each month; in 2019 the ban will expand, with trading permitted only on the last Sunday of each month. In 2020 trading will be prohibited on all Sundays except seven (those in the run-up to Christmas and the last Sundays in January, April, June and August).

Belgrade

Current retail stock is 250,000 sq m of retail space in shopping malls which translates into 150 sq m per 1,000 inhabitants (still one of the lowest rates in Europe).

Construction activity in the capital remained strong with 170,000 sq m of retail space under construction, as the Belgrade retail scene currently includes three major construction sites. The first shopping center to be completed is Ada Mall by GTC in Q2 2019, followed by two completions expected in 2020, namely IPM by MPC Properties (44,000 sq m) and the largest of the three projects, BW Galerija (93,000 sq m). In addition, BIG CEE announced the expansion of its existing BIG Fashion shopping center by a mixed-use complex comprising a retail park. Furthermore, Swedish retailer IKEA announced the construction of a retail park on a plot adjacent to its existing store in Bubanj Potok.

Sofia

Following intense levels of development during the past decade, the development market in Sofia slowed down and there were no new completions recorded in the recent period. As the retail market in Sofia is considered to be well developed in terms of modern retail stock, developers have shifted their focus to secondary cities in Bulgaria, with future supply in the capital mainly relying on mixed use schemes. Furthermore, The Mall, a shopping center in Sofia, announced an expansion, expected for completion during 2019.

The retail market continues recording strong demand and some of the notable market entries since the beginning of the year include The Body Shop, which opened its flagship store in The Mall as well as the first NYX Professional

Makeup store, which entered the market by opening a store in the Sofia high street area. Furthermore, the first Victoria's Secret stores opened in Varna and Burgas airports.

Several other retailers have announced their market entry plans, such as German's largest discount fashion and home goods chain Kik, Japanese based store chain specialized in household and consumer goods Miniso and Poland's discount clothing and household goods retailer Pepco.

Item 4.7.3. Investment market

Poland

Total investment volumes reported in Poland in 2018 reached an impressive EUR 7.2bn, which is an unprecedented result that outperformed the previous best year for the country, namely 2006, by almost EUR 2.2bn. The sector split in 2018 comprised EUR 2.75bn traded in offices, EUR 2.47bn traded in retail and EUR 1.84bn transacted in the industrial sector. In addition, around EUR 120m was traded in the hotel sector.

In the office sector, for the second time in history, the investment volumes outperformed the record 2006 volume by over 20%. In the regional cities, Kraków and Wrocław dominated the investment scene with nine out of thirteen properties traded there.

The investment activity in the office market in the second half of 2018 was outstanding and looks set to continue this strong trend in 2019 with a number of transactions waiting to close during the first quarter of 2019. Prime office yields in Warsaw now stand at 4.75%. Core regional city yields now stand at 6.00%.

With regards to the retail sector, the first quarter of the year proved the strongest, with a quarterly volume of EUR 1.75bn that accounted for ca. 70% of the annual retail volume. Moreover, 2018 annual result indicates a 20% growth in annual volumes when compared to 2017 (EUR 2.07bn transacted in retail).

Prime shopping centre yields achievable for best-in-class, dominant, major schemes in Poland currently stand at the level of 4.9%, high street yields are at approximately 4.0%, while prime retail parks are expected to trade at in the region of 6.8%.

Bucharest

In 2018, the property investment volume for Romania is estimated at ca. EUR 900m, a value slightly below the one registered in 2017 (EUR 963m). However, several transactions at different stages of negotiations were postponed and they are most likely to be concluded during the first half of 2019. The overall number of transactions decreased, although the average deal size increased, standing at approximately EUR 31m.

Bucharest accounted for over 78% of the total investment volume, mainly due to two very large office transactions in the city which were closed in Q2 and Q3, respectively. Market volumes were dominated by office transactions (50%), while retail accounted for about 35%.

The largest transaction registered in 2018 was the acquisition of The Bridge, a 52,000 sq m office park in the Center West submarket of Bucharest by the Romanian Group Dedeman. This marked an entrance of the group, who achieved fame as the most successful DIY retailer in Romania onto the real estate market.

The macro-economic forecast for Romania continues to be positive, despite recent concerns. The country was one of the EU's top performers in the first 9 months of 2018 (with GDP growth estimated at 4.2%) and is expected to hold this position for 2019 as well. On the financing side, terms and conditions are getting closer to what can be expected in the core CEE markets.

Consequently, sentiment is strong, and confidence is at one of the highest levels ever, with a total volume for 2019 estimated to surpass the EUR 1bn mark.

Retail, office and industrial yields have all compressed by 25 bps over the year with prime retail yields standing at 7.00%, prime office yields at 7.25% and prime industrial yields are at 8.25%.

Budapest

The 2018 annual investment volume reached a level of about EUR 1.8bn, the highest annual volume on record since 2007 (then about EUR 2bn). 2018 was the sixth consecutive year with a steady growth of investor appetite and thriving transactional volumes.

Prime yields stand at 5.75% for offices, 7.25% for logistics and 5.75% for shopping centres. Domestic purchasers remain the most active purchaser group by origin generating 56% of the annual transaction volume. Although appetite for investment products remains high, we forecast 2019 investment activity to be somewhat below the 2018 level due to the lack of supply.

Sofia

The most active market during the year 2018 was Bulgaria with a total volume of around EUR 530m, albeit a 33% decrease compared to the previous year.

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" 10 km run; run due to the 100th anniversary of regaining independence of Poland ; partnership of Family Bicycle Race; beach volleyball tournament - Cup of Silesia; foundations education stands: WWF, DKMS, organizations collecting 1% tax in Poland; mobile blood donation station, host of local WOŚP headquarters; flash mob due to the 100th anniversary of regaining independence of Poland; World Day of Autism – workshops for parents; Bulwary Juraskiej - renovation of a recreation area by the river).
- "Embracing environmental certification. Out of concern for the environment, the investments of the Company and the Group are fully compliant with LEED or BREEAM 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 economic crisis may slow down the general economy in the countries, where the Group operates. The economic downturn in those countries may result in reduced demand for property, growth of vacancy rates, and increased competition in the real estate market, which may adversely affect 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, may result in a drop in sales dynamics, and, on the other, an increase in vacancy rates and lower rent revenues from leased space, may significantly impact the results of operations of the Group. Specifically, the Group may be force to change some of its investment plans. Additionally, the Group may 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 twelve-month period ended 31 December 2018 and for the twelve-month period ended 31 December 2017, the Group derived 72% and 71% 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 twelve-month period ended 31 December 2018 and for the twelve-month period ended 31 December 2017, the Group derived 25% and 24% 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 twelve-month period ended 31 December 2018 and for the twelve-month period ended 31 December 2017, amounted for 3% 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 €40,125 in the twelve-month period ended 31 December 2018 and €148,562 in twelve-month period ended 31 December 2017.

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 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 2018 92% of the Group's loans were hedged or partially hedged. For example as at 31 December 2018, a 50bp change in Euribor rate would lead to €817 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 as and -0.3100 as of 2 January 2019 (EURIBOR for three-month deposits).

Impact of foreign exchange rate movements

For the twelve -month period ended 31 December 2018 and for the twelve -month period ended 31December 2017 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, 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 December 2017, the Group refinanced Avenue Mall shopping centre. The total loan amounts to €50,000. The proceeds from refinance received in January 2018.

On 12 March 2018, the Company repaid 1/3 of nominal value 20,000 bonds issued in 2014 under ISIN PLGTC0000177.

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

In March 2018, the Group has completed the renovation of two office buildings (Green Heart) in Belgrade.

In April 2018, the Group refinanced 19 Avenue office building in Belgrade. The total loan amounts to €24,000.

On 30 April 2018, the Company repaid 1/3 of nominal value 2,942 bonds issued in 2012 under ISIN PLGTC0000144 in the amount of €23,236. It was a full redemption.

On 31 May 2018, the Company acquired a Bulgarian company, which owned a shopping mall and adjacent office building located in Sofia, Bulgaria. Mall of Sofia provides 22,400 sq m of retail space and 10,300 sq m of office space. The purchase price of the shares amounted to €39,000. Simultaneously, the Bulgarian company entered into a loan agreement with OTP BANK PLC and DSK BANK EAD. The banks granted a loan related to the Mall of Sofia in the amount of €61,400.

In May 2018, the Company's shareholders adopted a resolution regarding a distribution of dividend in the amount of PLN 0.33 per share. The Company allows its 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 2018, the Company issued 13,233,492 series M Shares to some of the Company's shareholders €26,500 and paid a dividend in the amount of €9,700 to remaining shareholders.

In June 2018, the Group has completed the construction of GTC White House office building in Budapest.

In June 2018, the Group financed Belgrade Business Center office building in Belgrade with a bank loan. The total loan amounts to €23,000.

In August 2018, Globis Wroclaw and Santander Bank signed a new loan agreement. The total loan amounts to €23,100.

On 10 September 2018, GTC SA repaid 1/3 of nominal value 20,000 bonds issued in 2014 under ISIN PLGTC0000177. Following the partial redemption, the interest amount on the bonds will be calculated taking into account the nominal value of each bond, as decreased by the redemption amount to PLN 3,333.34.

In September 2018, the Group acquired land plot near Center Point office building in Budaphest for a total amount of €16,500. An office building exists on the land with a leasable area of 6,000 sq m. The Group plans to demolish the building and develop an office building with a leasable area of 35,500 sq m.

On 31 October 2018, the Group fully repaid the bank loan granted by mBank to Artico in the amount of €13,000.

In December 2018, Artico and PKO BP signed a new loan agreement. The total loan amounted €14,500 was drawn in January 2019.

In December 2018, the Group and Raiffeisen Bank signed an agreement to refinance FortyOne office complex in Belgrade. The Group will fully repay the existing bank loan in the amount of €26,000, and draw a new loan amounted €40,000.

In February 2019, the Group signed a term sheet for the sale of GTC White House office building in Budapest. Accordingly, as of 31 December 2018, the asset is presented within the assets held for sale, with a total fair value of €70,000.

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

The Group did not present forecasts for 2018.

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) investment property landbank.

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 2018 compared to 31 December 2017

Total assets increased by €174,315 (8%) to €2,356,924 as of 31 December 2018. This increase was mainly due to acquisition of Mall of Sofia and development activity, primarily Ada Mall, GTC White House, Green Heart and Advance Business Center combined with decrease in cash position.

Assets

The value of investment property and investment property landbank increased by €176,227 (9%) to €2,113,068 as of 31 December 2018 from €1,936,841 as of 31 December 2017, mainly due to acquisition of Mall of Sofia of €96,784; an investment of €113,106 mainly into refurbishment of two buildings in Green Heart project (formerly GTC Square), development of GTC White House and assets under construction Green Heart, Ada Mall, Advance Business Center, Matrix A, as well as €40,125 revaluation gain mainly attributed to GTC White House, Galeria Jurajska and assets under construction. The increase was partially offset by land disposals in the amount of €11,694 and reclassification of GTC White House and non-core land plots to assets held for sale in the amount of €76,884.

The value of assets held for sale increased by €71,860 to €76,196 as of 31 December 2018 from €4,336 as of 31 December 2017, mainly due to reclassification of GTC White House to assets held for sale following signing a letter of intent with potential buyer for this property.

The value of loans granted to non-controlling interest partner increased to €10,282 as of 31 December 2018 from 0 as of 31 December 2017, as a result of granting a loan by Company's subsidiary that holds Avenue Mall Zagreb (Euro Structor d.o.o.) to its shareholders, following the refinance of Avenue Mall Zagreb with €50,000 loan.

The value of cash and cash equivalents decreased by €68,290 (46%) to €80,456 as of 31 December 2018 from €148,746 as of 31 December 2017 mainly as a result of acquisition of Mall of Sofia (€37,846), development activity, repayment of borrowings and bonds, refinancing activity, partially offset by sale of land plots, new loans and bonds issue.

Liabilities

The value of loans and bonds increased by €81,262 (8%) to €1,115,347 as of 31 December 2018 from €1,034,085 as of 31 December 2017. This increase comes mainly from new loan related to Mall of Sofia in the amount of €59,582, new loan related to Belgrade Business Center in amount of €23,000, refinancing of Avenue Mall Zagreb in the amount of €50,000, refinancing of loan related to Globis Wroclaw in amount of €23,100 and issue of new corporate bonds in the amount of €20,494 as well as a drawdown of €64,757 from loans in project under contruction. The increase was partially offset by partial repayment of bonds in the amount of €54,436 as well as standard amortization of loans.

The value of provision for deferred tax liability increased by €13,293 (11%) to €139,120 as of 31 December 2018 from €125,827 as of 31 December 2017, mainly due to revaluation of investment property.

Equity

Equity increased by €79,533 (8%) to €1,020,795 as of 31 December 2018 from €941,262 on 31 December 2017. This is attributed to €92,020 profit for the period, offset by € 9,667 dividend distributed and €2,820 other comprehensive loss.

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 2018 with the result for the corresponding period of 2017

Revenues from rental activity

Rental and service revenues increased by €26,774 to €149,383 in the twelve-month period ended 31 December 2018. During this period, the Group has improved the rental revenue through completion and leasing of FortyOne III, Galeria Północna, Artico, which were completed during Q3-Q4 2017 as well as GTC White House which was completed in Q2 2018. These buildings contributed €15,887 to the recurring rental income in the twelve-month period ended 31 December 2018. Additionally, the acquired in Q3 2017, Cascade Office Building and Belgrade Business Center, as well as Mall of Sofia acquired in Q2 2018 contributed €9,332 to the recurring rental income in the twelve-month period ended 31 December 2018. Furthermore, as per its strategic decision to focus its investment only on capital cities in countries other than Poland, 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 these two assets amounting to €2,847 that existed in 2017, did not exist in the twelve-month period ended 31 December 2018 .

Cost of rental activity

Rental and service cost increased by €6,429 to €38,510 in the twelve-month period ended 31 December 2018. The completion of new office and retail space in above projects and acquisition of income generating assets as mentioned above contributed €6,876, whilst the sale of the non-core malls has offset the increase by €838.

Residential activity

Residential revenue decreased by €1,550 to €4,578 in the twelve-month period ended 31 December 2018 and comes mainly from sale the last phase of Osiedle Konstancja project. Residential cost decreased by €647 to €3,868 in the twelve-month period ended 31 December 2018.

Gross margin from operations

Gross margin (profit) from operations increased by €19,442 to €111,583 in the twelve-month period ended 31 December 2018. The gross margin (profit) on rental activities increased by €20,345 to € 110,873 in the twelve-month period ended 31 December 2018 from €90,528 in the twelve-month period ended 31 December 2017 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 2018 was 74% compared to 74% in the twelve-month period ended 31 December 2017.

The gross margin (profit) on residential activities decreased by €647 to €710 in the twelve-month period ended 31 December 2018 from €1,613 in the twelve-month period ended 31 December 2017.

Administrative expenses

Administrative expenses decreased by €5,006 to €10,236 in the twelve-month period ended 31 December 2018 from €15,242 in the twelve-month period ended 31 December 2017 mostly due to difference in valuation of stock based program. Administrative expenses (before provision for stock based program) decreased by €97 to €11,447 in the twelve-month period ended 31 December 2018. In addition, mark-to-market of stock based program resulted in recognition of income arising from share based payment of €1,211 in the twelve-month period ended 31 December 2018 (share price PLN 8.19) compared to expenses arising from share based payment of €3,698 recognized in the twelve-month period ended 31 December 2017.

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

Net profit from the revaluation of the investment properties and impairment of residential projects amounted to €40,125 in the twelve-month period ended 31 December 2018, as compared to a net profit of €148,562 in the twelve-month period ended 31 December 2017. Net profit from the revaluation of the investment properties reflects mainly revaluation gain on Ada Mall, GTC White House, Green Heart and Advance Business Center as well as Galeria Jurajska.

Other expense, net

Other expenses (net of other income) related to due diligence, business development activity and landbank properties amounted to €3,318 in the twelve-month period ended 31 December 2018 as compared to an expense of €1,322 in the twelve-month period ended 31 December 2017.

Foreign exchange differences gain (loss)

Foreign exchange differences loss amounted to €240 in the twelve-month period ended 31 December 2018, as compared to a foreign exchange loss of €4,906 in the twelve-month period ended 31 December 2017.

Financial income

Financial income amounted to €376 in the twelve-month period ended 31 December 2018 as compared to €234 in the twelve-month period ended 31 December 2017.

Financial cost

Financial cost increased by €1,336 to €30,184 in the twelve-month period ended 31 December 2018 as compared to €28,848 in the twelve-month period ended 31 December 2017 mainly due to an increase the average debt balance partially offset by refinancing activity which decreased the average borrowing cost from 2.8% in the twelve-month period ended 31 December 2017 to 2.7% as of 31 December 2018.

Profit before tax

Profit before tax decreased by €82,734 to €105,958 in the twelve-month period ended 31 December 2018, as compared to profit before tax of €188,692 in the twelve-month period ended 31 December 2017, mainly due to lower profit from revaluation.

Taxation

Tax amounted to €13,938 in the twelve-month period ended 31 December 2018. Taxation consist mainly of €6,450 of current tax expenses and €7,428 of deferred tax expenses.

Net profit/ (loss)

Net profit amounted to €92,020 in the twelve-month period ended 31 December 2018, as compared to a net profit of €156,598 in the twelve-month period ended 31 December 2017. This was mostly due profit from the revaluation of the investment properties and in particular investment property under construction of €40,125 compared to €148,562 in the twelve-month period ended 31 December 2017 combined with significant operating improvement which is reflected in an increase in profit before tax, revaluation and share based payment of €20,794 in the twelve-month period ended 31 December 2018, compared to the twelve-month period ended 31 December 2017.

Business 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.

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. Sofia
g. Other

In prior year financial statements segments were as following: Poland, Belgrade, Budapest, Bucharest, Zagreb, Bulgaria, and other. After acquisition of Mall of Sofia and sale of non-core shopping centres in Bulgaria, management decided to present Sofia as a separate reporting segment.

Segment analysis of rental income and costs for the year ended 31 December 2018 and 31 December 2017 is presented below:

	2018			2017		
Portfolio	**Revenues**	**Costs**	**Gross margin**	**Revenues**	**Costs**	**Gross margin**
Poland	78,531	(24,530)	54,001	63,258	(19,701)	43,557
Belgrade	19,619	(4,251)	15,368	15,529	(3,628)	11,901
Budapest	21,827	(5,166)	16,661	20,416	(4,880)	15,536
Bucharest	17,350	(3,594)	13,756	15,898	(3,683)	12,215
Zagreb	10,990	(3,736)	7,254	10,789	(3,744)	7,045
Sofia (*)	5,644	(1,101)	4,543	-	-	-
Other (*)	-	-	-	2,847	(960)	1,887
Total	**153,961**	**(42,378)**	**111,583**	**128,737**	**(36,596)**	**92,141**

(*) Income in year 2018, relates to the Mall of Sofia, which was acquired on 31 May 2018. Income in year 2017, relates to non-core shopping centres in Stara Zagora and Burgas, which were sold in April 2017.

Segment analysis of assets and liabilities as of 31 December 2018 is presented below:

	Real estate	Cash and deposits	Other	Total assets	Loans and bonds	Deferred tax liability	Other	Total liabilities
Poland	1,003,436	13,557	6,544	**1,023,537**	493,664	72,078	16,555	**582,297**
Belgrade	359,089	11,984	2,468	**373,541**	142,242	14,279	17,486	**174,007**
Budapest	354,760	14,096	1,269	**370,125**	113,132	11,304	11,855	**136,291**
Bucharest	214,450	13,030	6,176	**233,656**	109,685	11,082	9,955	**130,722**
Zagreb	136,424	3,995	11,029	**151,448**	48,000	16,776	8,896	**73,672**
Sofia (*)	128,547	3,920	1,665	**134,132**	64,044	7,213	3,225	**74,482**
Other	10,910	11	-	**10,921**	-	-	1,184	**1,184**
Non allocated		58,972	592	**59,564**	150,951	6,388	6,135	**163,474**
Total	**2,207,616**	**119,565**	**29,743**	**2,356,924**	**1,121,718**	**139,120**	**75,291**	**1,336,129**

(*) On 31 May 2018, the Company acquired Mall of Sofia.

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

	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**
Sofia	17,228	267	729	**18,224**	-	-	335	**335**
Other	10,808	37	6	**10,851**	-	-	1,181	**1,181**
Non allocated	-	79,925	2,120	**82,045**	188,605	3,963	7,033	**199,601**
Total	**1,962,458**	**201,502**	**18,649**	**2,182,609**	**1,034,085**	**125,827**	**81,435**	**1,241,347**

Item 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 2018 and 2017:

	Year ended 31 December 2018	Year ended 31 December 2017
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net cash from operating activities	**88,298**	**80,678**
CASH FLOWS FROM INVESTING ACTIVITIES:		
Expenditure on investment property	(112,462)	(155,204)
Decrease in short term deposits	17,944	-
Purchase of subsidiary, completed assets and land and minority	(54,296)	(78,356)
Decrease/(Increase) in escrow account	777	(777)
Sale (including advances) of investment property	13,613	4,499
Sale of shares in associates and subsidiaries	1	38,795
VAT/tax on purchase/sale of investment property	1,303	10,953
Interest received	130	161
Loans repayments from associates and joint ventures	1,300	1,625
Net cash used in investing activities	**(131,690)**	**(178,304)**
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from long-term borrowings	191,224	258,268
Repayment of long-term borrowings	(162,104)	(100,343)
Dividends paid	(9,752)	(8,061)
Interest paid	(28,093)	(26,241)
Loans origination cost	(2,132)	(3,573)
Loan granted to non-controlling interest	(10,036)	-
Decrease/(increase) in short term deposits	(2,276)	(24,831)
Net cash from (used in) financing activities	**(23,169)**	**95,219**
Effect of foreign currency translation	(1,729)	1,341
Net increase/(decrease) in cash and cash equivalents	(68,290)	(1,066)
Cash and cash equivalents, at the beginning of the year	**148,746**	**149,812**
Cash and cash equivalents, at the end of the year	**80,456**	**148,746**

Net cash flow from operating activities was €88,298 in the twelve-month period ended 31 December 2018 compared to €80,678 in the twelve-month period ended 31 December 2017.

Net cash flow used in investing activities amounted to €131,690 in the twelve-month period ended 31 December 2018 compared to €178,304 used in the twelve-month period ended 31 December 2017. Cash flow used in investing activities composed of (i) expenditure on investment properties of €112,462 related mainly to: Galeria Północna, Ada Mall, Green Heart and GTC White House and (ii) acquisition of Mall of Sofia of €37,846 and land in Budapest of €16,450. Cash flow used in investing activities was partially offset by sale of non core land plots in the amount of €13,613.

Proceeds from long-term borrowings for the twelve-month period ended 31 December 2018 in the amount of €191,224 are related mainly to loans for assets under construction in the amount of €64,757, loan related to Avenue Mall Zagreb in the amount of €50,000, loan related to Belgrade Business Center in the amount of €23,000, loan related to Globis Wroclaw in amount of €23,100 and new loan related to Mall of Sofia of €8,373 as well as issue of bonds in the amount of €20,494. Net cash flow used in financing activities amounted to €23,169 in the twelve-month period ended 31 December 2018, compared to €95,219 of cash flow from financing activities in the twelve-month period ended 31 December 2017. Cash flow from financing activities was partially offset by repayment of long term borrowings of €162,104 related mainly to repayment of bonds as well as amortization of investment loans.

FFO generated during the twelve-month period ended 31 December 2018 amounted to €61 million and revenue generated by sale of residential and non-core land plots amounted to €13.6 million.

Cash and cash equivalents as 31 December 2018 amounted to €80,456 compared to €148,746 as of 31 December 2017. 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 2018, the Group holds cash and cash equivalent in the amount of approximately €80,456. 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 its 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 2018, the Group's non-current liabilities amounted to €1,154,262 compared to €1,052,216 as of 31 December 2017.

The Group's total debt from long and short-term loans and borrowings as of 31 December 2018 amounted to €1,115,347 as compared to €1,034,085 as of 31 December 2017.

The Group's loans and borrowings are mainly denominated in Euro (97%), other currencies include bonds in PLN and projects loans in HUF.

The Group's loan-to-value ratio amounted to 45% as of 31 December 2018, as compared to 42% as of 31 December 2017. The Group's strategy is to keep its loan-to-value ratio at the level not exceeding 50%.

As of 31 December 2018, 92% 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 March 2018, the GTC SA has issued three year euro denominated bonds in the total amount of €20,494. The net proceeds from the issuance of the bonds amounted to €20,186 and were designated for repayment of existing bonds and corporate debt as well as for general corporate activities.

In May 2018, the Company's shareholders adopted a resolution regarding a distribution of dividend in the amount of PLN 0.33 per share. The Company allows its 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 2018, the Company issued 13, 233,492 series M Shares to some of the Company's shareholders (€26,500) and paid a dividend in the amount of €9,700 to remaining shareholders.

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

During 2018, the Group fully sold its investment in associates or joint ventures.

As of 31 December 2018, the Group does not have any long-term loans granted to its associates or joint ventures.

During 2018, the Group granted a number of loans to its subsidiaris. All such loans were for construction purposes.

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 2018 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 2018 (31 December 2017), the Group had commitments contracted for in relation to future building construction without specified date, amounting to €92,000 (€99,000). 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 2018 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 completion and 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. If the deadline is not met, then the Ministry has the right to terminate the Consortium agreement which might automatically trigger the termination of the Land Acquisition Agreements, as well as collateral activation and damages claims. Prior to 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 then. Since formalization of the amendment is not 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. Furthermore, as a prudential measure, the Management has also written off the related collateral in the amount of Euro 1 million provided to the Ministry as a guarantee for completing the golf course. As of 31 December 2018 the book value of the investment in Marlera Golf project was assessed by an independent valuer at €6,850.

With regards to the Marlera Golf LD d.o.o. that holds Marlera Golf project - GTC SA is registered as a 80% shareholder while a NCI is registered as a 20% shareholder. The relationship between the shareholders is strained and there are ongoing legal disputes. In 2018 both parties filed legal claims against each other. The NCI claims €3,3000 for damages, statutory penalty interest and legal fees. GTC's legal advisors assessed that the chances for the NCI claim to prevail are remote. Consequently the Company has not made any provisions related to this claim.

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.

At 31 December 2018, after taking into account the effect of interest rate swaps, approximately 100% of the Group's borrowings are at a floating rate of interest.

A 50bp increase in EURIBOR rate would lead to €817 change in 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:

	2018 PLN/Euro				2017 PLN/Euro			
	-10%	**-5%**	**+5%**	**+10%**	**-10%**	**-5%**	**+5%**	**+10%**
Cash and cash equivalents	3,128	1,564	(1,564)	(3,128)	2,556	1,278	(1,278)	(2,556)
Trade and other receivables	636	318	(318)	(636)	768	384	(384)	(768)
Trade and other payables	(1,394)	(697)	697	1394	(2,352)	(1,176)	1,176	2,352
Bonds	(1580)	(790)	790	1580	(7,262)	(3,631)	3,631	7,262

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 2018, the Group holds Cash and Cash Equivalent (as defined in IFRS) in the amount of approximately €80,500. 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) (the amounts are not discounted):

	31 December 2018	31 December 2017
First year (2019)	148	150
Second year (2020)	268	157
Third year (2021)	219	240
Fourth year (2022)	142	186
Fifth year (2023)	133	66
Thereafter (2024+)	300	334
	1,210	**1,133**

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 2018 and 2017, all bank loans bear floating interest rate (however, as of 31 December 2018 and 2017, 92% and 90% 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 is close to carrying value.

For fair value of investment property please refer to Note 17 consolidated financial statements for the year ended 31 December 2018.

Fair value hierarchy

As at 31 December 2018, 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 2018 and 31 December 2017, 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 *Item 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 adjusts 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 2018 and 31 December 2017.

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 2018	**31 December 2017**
(1) Loans, net of cash and deposits (*)	992,385	828,715
(2) Investment properties, residential landbank, assets held for sale and building for own use	2,207,618	1,959,779
Gearing ratio [(1)/(2)]	45.0%	42.3%

(*) Excluding loans from non-controlling interest 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 2018

As of 31 December 2018 and 2017 the number of full time equivalent working in the Group companies was 192 and 171 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 2018 for the 12 months ended 31 December 2018:

Name	Fixed remuneration[1] (€) (not in thousand)	Variable remuneration[1] (€) (not in thousand)	Vested Phantom Shares (not in thousand)
Thomas Kurzmann	400,000	225,000	500,000
Erez Boniel	360,000	120,000	300,000

[1] Remuneration (or fees to entities in which the holder is a key personnel) consists of payment for 2018 and success fee amounts paid for present and past year in addition to Group's Phantom Shares program vested during 2018, 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 2018 for the 12 months ended 31 December 2018:

Name	Periods	Remuneration[1] (€) (not in thousand)	Vested Phantom Shares (not in thousand)
Alexander Hesse	1 January - 31 December 2018	0	0
Olivier Brahin	22 February – 31 December 2018		
Philippe Couturier	1 January – 30 July 2018 and 4 September - 17 December 2018	0	0
Jan-Christoph Düdden	1 January - 31 December 2018	0	0
Mariusz Grendowicz	1 January - 31 December 2018	28,153	0
Patrick Haerle	21 December - 31 December 2018	0	
Ryszard Koper	1 January – 31 December 2018	25,338	0
Marcin Murawski	1 January - 31 December 2018	29,561	0
Katharina Schade	1 January - 31 December 2018	0	0
Ryszard Wawryniewicz	1 January – 10 July 2018 and 30 October - 31 December 2018	15,863	0

[1] Remuneration (or fees to entities in which the holder is a key personnel) consists of payment for 2018 and success fee amounts paid for present and past year in addition to Group's Phantom Shares program vested during 2018, as detailed in Item 12.9. Stock option plan. During the year none of the Phantom Shares were exercised.

During 2018, the following changes in the composition of the supervisory board took place:

- on 23 February 2018, the GTC Dutch Holdings B.V appointed Mr. Olivier Brahin as a member of the supervisory board of the Company, effective immediately (see current report no 2/2018);
- on 11 July 2018, the mandate of Mr. Alexander Hesse, Mr. Olivier Brahin, Mrs. Katharina Schade, Mr. Philippe Couturier and Mr. Jan-Christoph Düdden as a Supervisory Board expired pursuant to Article 9 point 2 of the Company's Articles of Association (see current report no 21/2018);
- on 30 July 2018, the mandates of Mr. Alexander Hesse, Mr. Olivier Brahin, Mrs. Katharina Schade, Mr. Philippe Couturier and Mr. Jan-Christoph Düdden as a Supervisory Board expired pursuant to Article 9 point 2 of the Company's Articles of Association (see current report no 21/2018);
- on 30 July 2018, the GTC Dutch Holdings B.V appointed Mr. Alexander Hesse, Mr. Olivier Brahin, Mrs. Katharina Schade, and Mr. Jan-Christoph Düdden as a members of the supervisory board of the Company, effective immediately (see current report no 21/2018);
- on 4 September 2018, the GTC Dutch Holdings B.V appointed Mr. Philippe Couturier as a member of the supervisory board of the Company, effective immediately (see current report no 22/2018);
- on 30 October 2018, Otwarty Fundusz Emerytalny PZU "Złota Jesień" appointed Ryszard Wawryniewicz to the Company's Supervisory Board, effective on 29 October 2018 (see current report no 25/2018);
- on 17 December 2018, Philippe Couturier submitted his resignations from position of a member of the Supervisory Board of the Company with immediate effect. (see current report no 26/2018);

- on 21 December 2018, the GTC Dutch Holdings B.V appointed Mr. Patrick Haerle as a member of the supervisory board of the Company, effective immediately (see current report no 27/2018).

Item 12.9 Stock option plan

Certain key management personnel of the Group are entitled to specific payments resulting from phantom shares in the Group (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
6.48	3,252,400	5,868,800	9,121,200
7.39	50,000	100,000	150,000
9.33	100,000	35,000	135,000
Total	**3,402,400**	**6,003,800**	**9,406,200**

As at 31 December 2018, phantom shares issued were as follows:

Last year of exercise date	Number of phantom shares
2019	460,800
2020	150,000
2021	7,547,400
2022	1,248,000
Total	**9,406,200**

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 2019, 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 2018) on 14 November 2018.

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 2019 (not in thousand)	Nominal value of shares in PLN (not in thousand)	Change since 14 November 2018 (not in thousand)
Thomas Kurzmann	55,000	5,500	No change
Erez Boniel	143,500	14,350	No change
Total	**198,500**	**19,850**	

Shares of GTC held by members of the Supervisory Board

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 2019 (not in thousand)	Nominal value of shares in PLN (not in thousand)	Change since 14 November 2018
Alexander Hesse	0	0	No change
Olivier Brahin	0	0	No change
Jan-Christoph Düdden	0	0	No change
Mariusz Grendowicz	10,158	1,016	No change
Patrick Haerle[1]	0	0	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 21 December 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 2018 in Note 36 *Related Party Transactions*.

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

On 12 March 2018, GTC SA repaid 1/3 of nominal value 20,000 bonds issued in 2014 and on 10 September 2018 the Company repaid another 1/3 of nominal value 20,000 bonds issued in 2014 under ISIN PLGTC0000177. Following the partial redemptions, the interest amount on the bonds will be calculated taking into account the nominal value of each bond, as decreased by the redemption amount to PLN 3,333.34. The Bonds will be subject to further partial redemption in 1/3 of their original nominal value on 11 March 2019 (date of full redemption).

In March 2018, GTC SA issued three-year euro denominated bonds, listed on WSE, in the total amount of €20,494. The bonds bears a fixed interest of 3.7% p.a and the maturity date is 5 March 2021.

On 30 April 2018, GTC SA repaid 1/3 of nominal value 2,942 bonds issued in 2012 under ISIN PLGTC0000144 in the amount of €23,236. It was a full redemption.

In April 2018, the Group refinanced 19 Avenue office building in Belgrade. The total loan amounts to €24,000.The loan will be expired on 28 February 2024.

In May 2018, the Group entered into a loan agreement with OTP BANK PLC and DSK BANK EAD. The banks granted a loan related to the Mall of Sofia in the amount of €61,400. The loan will be expired on 26 April 2023..

In June 2018, the Group financed Belgarde Business Center office building in Belgrade with a bank loan. The total loan amounts to €23,000. The loan will be expired on 30 June 2023.

In August 2018 Globis Wroclaw and Santander Bank signed a new loan agreement. The total loan amounts to €23,100. The loan will be expired on 31 August 2023.

On 31 October 2018, the Group fully repaid the bank loan granted by mBank to Artico in the amount of €13,000.

In December 2018, Artico and PKO BP signed a new loan agreement. The total loan amounted €14,500 was drawn in January 2019. The loan will be expired on 31 August 2024.

In December 2018, the Group and Raiffeisen Bank signed an agreement to refinance FortyOne office complex in Belgrade. The Group will fully repay the existing bank loan in the amount of €26,000, and draw a new loan amounted €40,000. The loan will be expired on 31 December 2023.

All signed and terminated in year 2018 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 2.7% 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.

However, on 2 April 2018 GTC SA received from the majority shareholder in the Company, LSREF III GTC Investments B.V. ("Lone Star"), a notification that Lone Star decided to review its options in relation to its investment in Globe Trade Center S.A. and appointed J.P.Morgan and UBS to assist them in this strategic review.

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

On 31 May 2018, the Company acquired a Bulgarian company, which owned a shopping mall and adjacent office building located in Sofia, Bulgaria. Mall of Sofia provides 22,400 sq m of retail space and 10,300 sq m of office space. The purchase price of the shares amounted to €39,000. Simultaneously, the Bulgarian company entered into a loan agreement with OTP BANK PLC and DSK BANK EAD. The banks granted a loan related to the Mall of Sofia in the amount of €61,400.

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

In August 2017, the Company entered into an agreement with Ernst & Young Audyt Polska Sp. z o.o. sp. k ("Ernst & Young) 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 Ernst & Young Ernst & Young in the countries of the relevant Group's subsidiaries.

The independent external auditor was selected by the resolution of the Company's Supervisory Board dated 17 August 2017.

Ernst & Young has previously reviewed and audited financial statements of the Company and Group in 2002-2017.

The following summary presents a list of services provided by Ernst & Young and remuneration for the services in the periods of 12 months ended on 31 December 2018 and 31 December 2017.

	For year ended	
	31 December 2018	31 December 2017
	€	€
Fee for audit and review of financial statements	570	560
Tax and other advisory services	-	-
Total	**570**	**560**

Globe Trade Centre S.A.

Report on application of the principles of corporate governance for the financial year ended 31 December 2018

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 2018.

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 2018 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 29 March 2018 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

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 2018. 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**
GTC Dutch Holdings B.V.[1]	298,575,091	61.75%	298,575,091	61.75%
OFE PZU Złota Jesień	50,985,513	10.54%	50,985,513	10.54%
AVIVA OFE Aviva BZ WBK	36,619,774	7.57%	36,619,774	7.57%
Other shareholders	97,356,618	20.14%	97,356,618	20.14%
Total	**483,536,996**	**100.00%**	**483,536,996**	**100.00%**

[1] GTC Dutch Holdings B.V. is 100% subsidiary of LSREF III GTC Investments B.V. and is related to Lone Star Real Estate Partners III L.P.

In May 2018, the Company's shareholders adopted a resolution regarding distribution of dividend in the amount of PLN 0.33 per share and allowing the Company's shareholders to elect to receive the dividend in the form of newly issued shares or in cash depending on shareholders preferences. As a result in June 2018, the Company issued 13,233,492 series M Shares to its shareholders who chose the dividend in the form of shares.

On 30 July 2018, the Company received three notifications of change of shareholding in the Company from Lone Star Real Estate Partners III, L.P., LSREF III GTC Investments B.V., and a wholly-owned subsidiary of the latter, GTC Dutch Holdings B.V. Pursuant to the notifications on 24 July 2018 LSREF III GTC Investments B.V. contributed 298,575,091 shares in the Company (constituting 61.75% of the Company's share capital and entitling its holder to 61.75% of votes at the Company's general meeting) in kind to its wholly-owned (100%) subsidiary, GTC Dutch Holdings B.V., in exchange for newly-issued shares in GTC Dutch Holdings B.V., thus decreasing its direct shareholding in the Company to zero.

On 16 October 2018, the Company received a notification from Powszechne Towarzystwo Emerytalne PZU SA (PTE PZU S.A.) acting on behalf of Otwarty Fundusz Emerytalny PZU "Złota Jesień" (OFE PZU) that in connection with the completion of the liquidation of Pekao Otwarty Fundusz Emerytalny (Pekao OFE), resulting in the transfer of all assets of Pekao OFE to OFE PZU and PZU's contribution to all rights and obligations of Pekao OFE, the previously held share of OFE PZU in the total number of votes in Globe Trade Center S.A increased on this day to 50,985,513 (10.54% of votes).

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 2018, 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 2018:

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	2018	2021

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

The composition of the supervisory board

As of 31 December 2018, the supervisory board comprises nine members. 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 2018:

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	2018	2021
Olivier Brahin	Member of the supervisory board	2013	2018	2021
Jan-Christoph Düdden	Member of the supervisory board	2014	2018	2021
Mariusz Grendowicz	Member of the supervisory board	2000	2016	2019
Patrick Haerle	Member of the supervisory board	2018	2018	2021
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	2018	2021
Ryszard Wawryniewicz	Member of the supervisory board	2017	2018	2021

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

Between 16 May 2014 - 22 February 2018 Mr Olivier Brahin was not a member of the supervisory board of the Company.
Between 11 July 2018 - 28 October 2018 Mr. Ryszard Wawryniewicz was not a member of the supervisory board of the Company.

During 2018, the following changes in the composition of the supervisory board took place:

- On 23 February 2018, the GTC Dutch Holdings B.V appointed Mr. Olivier Brahin as a member of the supervisory board of the Company, effective immediately (see current report no 2/2018);
- on 11 July 2018, the mandates of Mr. Ryszard Wawryniewicz as a Supervisory Board expired pursuant to Article 9 point 2 of the Company's Articles of Association (see current report no 16/2018);
- on 30 July 2018, the mandate of Mr. Alexander Hesse, Mr. Olivier Brahin, Mrs. Katharina Schade, MR. Philippe Couturier and Mr. Jan-Christoph Düdden as a Supervisory Board expired pursuant to Article 9 point 2 of the Company's Articles of Association (see current report no 21/2018);
- on 30 July 2018, the GTC Dutch Holdings B.V appointed Mr. Alexander Hesse, Mr. Olivier Brahin, Mrs. Katharina Schade, and Mr. Jan-Christoph Düdden as a members of the supervisory board of the Company, effective immediately (see current report no 21/2018);
- on 4 September 2018, the GTC Dutch Holdings B.V appointed Mr. Philippe Couturier as a member of the supervisory board of the Company, effective immediately (see current report no 22/2018);
- on 30 October 2018, Otwarty Fundusz Emerytalny PZU "Złota Jesień" appointed Ryszard Wawryniewicz to the Company's Supervisory Board, effective on 29 October 2018 (see current report no 25/2018);
- on 17 December 2018, Philippe Couturier submitted his resignations from position of a member of the Supervisory Board of the Company with immediate effect. (see current report no 26/2018);
- on 21 December 2018, the GTC Dutch Holdings B.V appointed Mr. Patrick Haerle as a member of the supervisory board of the Company, effective immediately (see current report no 27/2018).

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.

Audit Committee

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.

The following table presents the details on the Audit Committee members as at 31 December 2018:

Member	Function	Conforms with independence criteria	Knowledge and skills in the field of accounting or auditing of financial statements	Knowledge and skills in the real estate
Mariusz Grendowicz	Member of the of the audit committee	No	Yes [1]	Yes [1]
Ryszard Koper	Member of the audit committee	Yes	No	No
Marcin Murawski	Chairman of the of the audit committee	Yes	Yes [2]	No

[1] Mariusz Grendowicz studied at the University of Gdańsk and then graduated with a degree in banking in the United Kingdom. In 2013 - 2014 he was President and Chief Executive Officer of Polish Investments for Development SA. In 2008-2010, he was President of the Management Board and Chief Executive Officer of BRE Bank SA, and earlier, in 2001- 2006 was a Vice President of Bank BPH SA, responsible for Corporate Banking and Real Estate Division. During his career, he was also President and Deputy President of ABN AMRO in Poland (1997-2001), Deputy President of ING Bank in Hungary (1995-1997) and headed division of structured finance and capital markets in ING Bank in Warsaw (1992-1995). In 1983-1992 Mariusz Grendowicz worked in banks in London, including Australia and New Zealand Banking Group and Citibank

[2] Marcin Murawski graduated from the Faculty of Management of Warsaw University in 1997. He has also the following certificates: ACCA, ACCA Practicing Certificate, KIBR entitlement, CIA. Since 2012 he has been a member of the supervisory board of CCC S.A. Between 2005 and 2012 Mr Murawski was a director of the internal audit and inspection department at WARTA Group and secretary of the audit committee at TUIR WARTA S.A. and TUNŻ WARTA S.A. Between 1997 and 2005 he worked at PricewaterhouseCoopers Sp. z o.o., as manager of the audit department (2002-2005), senior assistant in the audit department (1999-2001), assistant in the audit department (1997-1999).

In 2018, the Audit Committee meet 4 times in total.

Remuneration Committee

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 2018, the members of the Remuneration Committee were Alexander Hesse, Marcin Murawski and Mariusz Grendowicz.

Part 12. Audit partner

The recommendation to select the audit firm to audit the financial statements met all the biding legal conditions required in the procedure for selection of the audit firm to audit the financial statements.

The audit firm selected to audit financial statements did not provide any other services for the Company in 2018.

Rules for selection of an independent auditor within an audit firm to audit GTC S.A.'s financial statements, as well as the rules for conducting authorised non-audit services by the audit firm.

On 20 October 2017, the supervisory board of GTC approved the rules for the selection of an independent auditor according to the Act on Registered Auditors, Audit Firms and Public Supervision dated 11th May 2017 which were adopted by the Audit Committee of the Company on 19 October 2017.

The selection of an audit firm to audit and review the financial statements of the Company is the responsibility of the supervisory board. Decisions are taken in the form of an official resolution of the supervisory board, taking into account the prior recommendations of the Audit Committee.

The Audit Committee assesses the independence of the statutory auditor and consents to the provision of authorised non-audit services to the Company. The consent referred to in the preceding sentence can be expressed after the assessment of the independence of the statutory auditor and after obtaining from the statutory auditor a confirmation that the provision of authorised non-audit services will be carried out in accordance with the independence requirements laid down for such services in the rules of professional ethics and standards of performing such services.

Main assumptions of the policy for selecting an audit firm for the purpose of conducting an audit:

a) the Company's supervisory board selects an audit firm to audit the financial statements. based on the prior recommendation of the Audit Committee of the Supervisory Board. The selection decision is taken in the form of a resolution of the supervisory board.

b) the Audit Committee, in its recommendation, shall:

- recommend a preferred audit firm along with a justification of the preference of the Audit Committee;

- state that the recommendation is free from third-party influence;

- state that the Company has not entered into any agreements containing clauses that restrict the ability of the supervisory board to select an audit firm for the purposes of the audit of the Company's financial statements to certain categories or lists of audit firms; and

- indicate the proposed remuneration for conducting the audit.

c) in the event that the selection conducted by the Audit Committee does not refer to the prolongation of the agreement for the purpose of the audit of the Company's financial statements, the recommendation of the Audit Committee must contain at least two options for the selection of an audit firm, along with justifications for each option as well as an explanation of the reasons of the Audit Committee's preferred option.

d) the Audit Committee shall cooperate with the Company's management board in obtaining, analysing and evaluating the audit offers, and will be assisted by the management board in drafting the respective recommendation.

e) in the course of the selection procedure, the Supervisory Board and the Audit Committee shall consider:

- the principles of impartiality and independence of the audit firm. This shall include an analysis of other work carried out by the audit firm in the Company that extends beyond the scope of the auditing of the financial statements in order to avoid any conflict of interest;

- the experience and track record of the audit team in auditing financial statements of similar companies, its competencies and financial criteria;

- the maximum allowed duration of continuous engagements of statutory audits carried out by the same audit firm under any applicable law;

- the proposed remuneration for the audit; and

- the assessment of the relation between the criteria specified in points 2 and 3 above.

Part 13. 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 29 March 2018 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 2018 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 in all material respects, 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 2019

Information of the Globe Trade Centre S.A. prepared on the basis of the Supervisory Board's statement on appointment of the audit company for the audit of the yearly financial statements

(pursuant with § 70 section 1 item 7 and § 71 section 1 item 6 of the Regulation of the Ministry of Finance dated 29th March 2018 in respect of the current and periodical information given by the securities issuers and the conditions of recognizing as equal the information demanded by the national lawful regulation of a country which does not hold the membership in European Union)

The Management Board of the Globe Trade Centre S.A. („Company"), on the basis of statement of the Supervisory Board of the Company on appointment of the audit company for audit of the yearly financial statements dated 17th August 2017 hereby informs that the selection of an auditor to audit yearly consolidated and standalone financial statements for the year 2018 was performed due to the binding laws and within the relevant internal regulations of Globe Trade Centre S.A. related to the selection policy of the audit company.

The Management Board informs that:

— audit company and members of the audit team performing audit of yearly consolidated and standalone financial statements for the financial year ended 31 December 2018 have met the criteria to prepare impartial and independent report on the yearly financial statements assessment due to the binding laws, standards of profession and professional ethics;

— the Company conforms with the rules of binding law regarding rotation of the audit company and key chartered auditor and obligatory grace periods;

— the Company has the policy for selecting an audit company for the purpose of conducting an audit and the policy for conducting authorised non-audit services for the benefit of the security issues by the audit company, entity connected with this audit company or member of its affiliate conducting non-audit services including services conditionally dismissed from the prohibition of performing services by the audit company.

Warsaw, 20th March 2019

Thomas Kurzmann
President of the Board

Erez Boniel
Member of the Board

Statement of the Supervisory Board of Globe Trade Centre S.A. in the matter of assessment of the report on activities of the issuer and financial statements and its compliance with the books, documents and state of facts

(pursuant with the § 70 section 1 item 14 and § 71 section 1 item 12 of the Regulation of the Ministry of Finance dated 29th March 2018 in respect of the current and periodical information given by the securities issuers and the conditions of recognizing as equal the information demanded by the national lawful regulation of a country which does not hold the membership in European Union)

The Supervisory Board, as the supervising body of Globe Trade Centre S.A. ("Company" or "GTC") has made assessment of the report on activities of the issuer and financial statements of the issuer in the aspect of its compliance with the books, documents and state of facts. In particular the Supervisory Board has verified:

- report on issuer's activity for year 2018,

- standalone financial statements of the issues for year 2018,

- consolidated financial statements of the capital group of the issuer for the year 2018.

The Supervisory Board in the effect of the performed assessment has stated that report on the Company's activities and report on activities of the Company's capital group for the year 2018 remains compliant in all material aspects with article 49 and 55 section 2a of Accounting Act and in the Regulation of the Ministry of Finance dated 29th March 2018 in respect of the current and periodical information given by the securities issuers and the conditions of recognizing as equal the information demanded by the national lawful regulation of a country which does not hold the membership in European Union and the information contained therein remains in compliance with the audited by certified auditor standalone and consolidated financial statements of the Company and the Company's capital group for the year 2018.

The Supervisory Board assesses that the presented by the Management Board of the Company standalone and consolidated financial statements of the Company and the Company's capital group for the year 2018 and report on activities of the Company and the Company's capital group for the year 2018 illustrates genuinely and clearly all the information inevitable and significant for the assessment of the financial standing of the Company and the Company's capital group prepared as at 31st December 2018, as well as it remains in compliance with the books, documents and state of facts.

The Supervisory Board has made a positive assessment of the standalone financial statements for the financial year 2018 and the report on activities of the Company and the Company's capital group for the year 2018 based on:

- content of the above statements, submitted by the Company's Management Board;

- report of the independent certified auditor i.e. Ernst & Young Audyt Polska sp. z o.o. sp. k. with its registered office in Warsaw made upon audit of the standalone financial statements of the Company and consolidated financial statements of the Company's capital group prepared as at 31st December 2018 as well as an additional report prepared for Audit Committee on the basis of article 11 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, derogating the EU Commission Decision no. 2005/909 and according to the rules of Act of 11th May 2017 on Statutory Auditors, Audit Firms and Public Supervision;

- meetings with the audit firm representatives, including the key certified auditor;

- information from Audit Committee regarding the process, effects and meaning of an audit for the clarity of financial reporting in the Company and also the role of the Committee in the process of audit of financial statements;

- results of other verifying activities in selected operational and financial areas.

Warsaw, 20th March 2019

Alexander Hesse
President of the Supervisory Board

Statement of the Supervisory Board of Globe Trade Centre S.A. in the matter of appointment, composition and functioning of audit committee
(pursuant with the § 70 section 1 item 8 and § 71 section 1 item 7 of the Regulation of the Ministry of Finance dated 29th March 2018 in respect of the current and periodical information given by the securities issuers and the conditions of recognizing as equal the information demanded by the national lawful regulation of a country which does not hold the membership in European Union)

The Supervisory Board states that within Globe Trade Centre S.A.:

a) the rules on appointment, composition and functioning of audit committee are fulfilled, including meeting criteria of independence by its members and standards of having sufficient knowledge and skills in area of industry of operations of the issuer and accounting standards and the rules for audit of financial statements,
b) audit committee has acted in accordance with the binding provisions of law reserved for audit committee.

Warsaw 20th March 2019

Alexander Hesse
President of the Supervisory Board

GLOBE TRADE CENTRE S.A.

IFRS CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED
31 DECEMBER 2018
WITH THE INDEPENDENT AUDITOR'S REPORT

Globe Trade Centre S.A.
Consolidated Statement of Financial Position
as of 31 December 2018
(in thousands of Euro)

	Note	31 December 2018	31 December 2017
ASSETS			
Non-current assets			
Investment property	17	1,981,961	1,797,583
Investment property landbank	17	131,107	139,258
Residential landbank	18	12,698	12,698
Investment in associates and joint ventures	19	-	1,303
Property, plant and equipment	16	6,712	6,847
Deferred tax asset	15	52	-
Other non-current assets		129	86
		2,132,659	**1,957,775**
Loan granted to non-controlling interest partner	30	10,282	**-**
Total non-current assets		**2,142,941**	**1,957,775**
Assets held for sale	32	**76,196**	**4,336**
Current assets			
Residential inventory		-	3,755
Accounts receivables		4,449	4,367
Receivables related to expropriation of land	29	4,917	-
Accrued income		1,066	1,093
VAT receivable	28	5,156	6,618
Income tax receivable		1,233	619
Prepayments and deferred expenses		1,401	1,767
Escrow account		-	777
Short-term deposits	23	39,109	52,756
Cash and cash equivalents	24	80,456	148,746
		137,787	**220,498**
TOTAL ASSETS		**2,356,924**	**2,182,609**

Globe Trade Centre S.A.
Consolidated Statement of Financial Position
as of 31 December 2018
(in thousands of Euro)

	Note	31 December 2018	31 December 2017
EQUITY AND LIABILITIES			
Equity attributable to equity holders of the Company			
Share capital	33,9	10,960	10,651
Share premium	9	546,711	520,504
Capital reserve	33	(36,054)	(36,054)
Hedge reserve		(4,542)	(2,365)
Foreign currency translation		1,680	2,323
Accumulated profit		496,996	441,977
		1,015,751	**937,036**
Non-controlling interest	30	5,044	4,226
Total Equity		**1,020,795**	**941,262**
Non-current liabilities			
Long-term portion of long-term borrowing	31	993,453	907,704
Deposits from tenants	26	10,375	8,960
Long term payable	27	3,045	2,621
Provision for share based payment	34	4,533	5,744
Derivatives	21	3,736	1,360
Provision for deferred tax liability	15	139,120	125,827
		1,154,262	**1,052,216**
Current liabilities			
Investment and trade payables and provisions	22	50,499	50,505
Current portion of long-term borrowing	31	121,894	126,381
VAT and other taxes payable		1,636	1,516
Income tax payable		1,114	1,843
Derivatives	21	1,887	2,035
Advances received	20	4,837	6,851
		181,867	**189,131**
TOTAL EQUITY AND LIABILITIES		**2,356,924**	**2,182,609**

Globe Trade Centre S.A.
Consolidated Income Statement
for the year ended 31 December 2018
(in thousands of Euro)

	Note	Year ended 31 December 2018	Year ended 31 December 2017
Rental revenue	10,14	110,530	91,084
Service charge revenue	10	38,853	31,525
Residential revenue	10,14	4,578	6,128
Service charge costs	14	(38,510)	(32,081)
Residential costs	14	(3,868)	(4,515)
Gross margin from operations		**111,583**	**92,141**
Selling expenses	11	(2,148)	(2,111)
Administration expenses	12	(10,236)	(15,242)
Profit from revaluation/ impairment of assets	17	40,125	148,562
Other income		1,567	1,484
Other expenses	25	(4,885)	(2,806)
Profit/(Loss) from continuing operations before tax and finance income / expense		**136,006**	**222,028**
Foreign exchange differences gain/(loss), net		(240)	(4,906)
Finance income	13	376	234
Finance cost	13	(30,184)	(28,848)
Share of profit/(loss) of associates and joint ventures	19	-	184
Profit/(loss) before tax		**105,958**	**188,692**
Taxation	15	(13,938)	(32,094)
Profit/(Loss) for the year		**92,020**	**156,598**
Attributable to:			
Equity holders of the Company		91,202	156,300
Non-controlling interest	30	818	298
Basic earnings per share (in Euro)	35	0.19	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 2018
(In thousands of Euro)

	Year ended 31 December 2018	Year ended 31 December 2017
Profit for the period	**92,020**	**156,598**
Net other comprehensive income for the period, net of tax not to be reclassified to profit or loss in subsequent periods	-	-
Gain (loss) on hedge transactions	(2,625)	1,633
Income tax	448	(367)
Net gain on hedge transactions	**(2,177)**	**1,266**
Foreign currency translation	(643)	451
Net other comprehensive income for the period, net of tax to be reclassified to profit or loss in subsequent periods	(2,820)	*1,717*
Total comprehensive income for the period, net of tax	**89,200**	**158,315**
Attributable to:		
Equity holders of the Company	88,382	158,017
Non-controlling interest	818	298

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 2018
(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 2018	**10,651**	**520,504**	**(36,054)**	**(2,365)**	**2,323**	**441,977**	**937,036**	**4,226**	**941,262**
Other comprehensive income	-	-	-	(2,177)	(643)	-	(2,820)	0	(2,820)
Profit / (loss) for the year ended 31 December 2018	-	-	-	-	-	91,202	91,202	818	92,020
Total comprehensive income / (loss) for the period	**-**	**-**	**-**	**(2,177)**	**(643)**	**91,202**	**88,382**	**818**	**89,200**
Distribution of dividend	309	26,207	-	-	-	(36,183)	(9,667)		(9,667)
Balance as of 31 December 2018	**10,960**	**546,711**	**(36,054)**	**(4,542)**	**1,680**	**496,996**	**1,015,751**	**5,044**	**1,020,795**

	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**

Globe Trade Centre S.A.
Consolidated Statement of Cash Flow
for the year ended 31 December 2018
(In thousands of Euro)

	Note	Year ended 31 December 2018	Year ended 31 December 2017
CASH FLOWS FROM OPERATING ACTIVITIES:			
Profit before tax		105,958	188,692
Adjustments for:			
Loss/(profit) from revaluation/impairment of assets and residential projects		(40,125)	(148,562)
Share of loss / (profit) of associates and joint ventures	19		(184)
Loss / (profit) on disposal of asset			-
Foreign exchange differences loss/(gain), net		240	4,906
Finance income	13	(376)	(234)
Finance cost	13	30,184	28,848
Provision for share based payment loss/(profit)	12	(1,211)	3,698
Depreciation	16	558	529
Operating cash before working capital changes		**95,228**	**77,693**
Decrease in accounts receivables and prepayments and other current assets		674	594
Decrease in residential inventory		3,755	1,737
Increase in advances received		(2,788)	2,578
Increase in deposits from tenants		725	1,486
Increase (decrease) in trade payables		(1,399)	505
Cash generated from operations		**96,195**	**84,593**
Tax paid in the period		(7,897)	(3,915)
Net cash from operating activities		**88,298**	**80,678**
CASH FLOWS FROM INVESTING ACTIVITIES:			
Expenditure on investment property		(112,462)	(155,204)
Purchase of completed assets and land	9	(16,450)	(62,108)
Decrease in short term deposits		17,944	-
Increase (decrease) in escrow accounts for purchase of assets		777	(777)
Sale (including advances) of investment property		13,613	4,499
VAT/tax on purchase/sale of investment property		1,303	10,953
Sale of subsidiary		-	37,545
Purchase of subsidiary	9	(37,846)	(15,896)
Purchase of non-controlling interest		-	(352)
Sale of shares in associates		1	1,250
Interest received		130	161
Loans repayments from associates		1,300	1,625
Net cash used in investing activities		**(131,690)**	**(178,304)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Distribution of dividend		(9,752)	(8,061)
Proceeds from long-term borrowings	31	191,224	258,268
Repayment of long-term borrowings	31	(162,104)	(100,343)
Interest paid		(28,093)	(26,241)
Loans origination payment		(2,132)	(3,573)
Loans granted to non-controlling interest		(10,036)	-
Decrease/(Increase) in short term deposits		(2,276)	(24,831)
Net cash from /(used) in financing activities		**(23,169)**	**95,219**
Net foreign exchange difference		**(1,729)**	**1,341**
Net increase/ (Decrease) in cash and cash equivalents		**(68,290)**	**(1,066)**
Cash and cash equivalents at the beginning of the period		**148,746**	**149,812**
Cash and cash equivalents at the end of the period		**80,456**	**148,746**

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, commercial and residential real estate companies in Poland, Budapest, Bucharest, Belgrade, Zagreb.

The Group's main business activities are Development and rental of office and retail space.

As of 31 December 2018 and 2017, the number of full time equivalent working employees in the Group companies was 192 and 171, 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 on Johannesburg Stock Exchange.

The major shareholder of the Company as of 31 December 2018 is GTC Dutch Holdings B.V, controlled by Lone Star, a global private equity firm, which held 298,575,091 shares 61.75% of total share as of 31 December 2018.

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 the 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 no difference between International Financial Reporting Standards applying to these consolidated financial statements 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 38.

As of 31 December 2018, the Group's net working capital (defined as current assets less current liabilities) was negative and amounted to Euro 44.1 million as some loans that are expected to be refinanced were temporary classified as current liabilities. The Group signed preliminary sale agreement for the sale of few assets (see note 32). Those assets are presented within Assets held for sale, in the amount of Euro 76.2 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 adopted in the preparation of the attached consolidated financial statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2017, except for the adoption of new standards effective as of 1 January 2018. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective. No changes to comparative data or error corrections were made.

Standards issued and effective for financial years beginning on or after 1 January 2018:

The Group applies, for the first time, IFRS 15 *Revenue from Contracts with Customers* and IFRS 9 *Financial Instruments,* effect of implementation of these standards is disclosed below. Several other amendments and interpretations apply for the first time in 2018, but do not have an impact on the consolidated financial statements of the Group.

- IFRS 15 *Revenue from Contracts with Customers*
  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 replaced 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 Group did not account for any significant impact of the adoption of IFRS 15 on the financial statements.
- IFRS 9 *Financial Instruments*
  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. 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. The Group adopted the new standard on the required effective date and did not restated comparative information. Overall, the Group states there is no significant impact on the Groups statement of financial position and equity.

6. New standards and interpretations that have been issued but have not yet become effective, including impact of IFRS 16 implementation

Standards issued but not yet effective:

- 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;
- 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;
- 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;
- IFRIC 23 *Uncertainty over Income Tax Treatments* (issued on 7 June 2017) - 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) - 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) – 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) – effective for financial years beginning on or after 1 January 2019;
- *Annual Improvements to IFRS Standards 2015-2017 Cycle* (issued on 12 December 2017) – effective for financial years beginning on or after 1 January 2019;
- *Amendments to References to the Conceptual Framework in IFRS Standards* (issued on 29 March 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 2020;
- Amendment to IFRS 3 *Business Combinations* (issued on 22 October 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 2020;
- Amendments to IAS 1 and IAS 8: *Definition of Material* (issued on 31 October 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 2020.

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 plans to adopt all new standards on the required effective date and will not restate comparative information. Except of the impact of IFRS 16 (as described below), the Group does not expect significant impact on its statement of financial position and equity.

6. New standards and interpretations that have been issued but have not yet become effective, including impact of IFRS 16 implementation (continued)

IFRS 16 Leases

In January 2016, the IASB issued the final version of International Financial Reporting Standard 16 *Leases* ("IFRS 16"). IFRS 16 establishes principles for the recognition, measurement, presentation and disclosure of leases, with the objective of ensuring that lessees and lessor provide relevant information that faithfully represents those transactions:

- IFRS 16 requires lessees to recognise most long term leases on their balance sheets. Lessor accounting is substantially unchanged to the existing accounting under IAS 17 Leases.
- Lessees will have a single accounting model for all leases, with certain exemptions.
- It will require the disclosure of new information about leases that hasn't previously been required.

During 2018, the Group performed an impact assessment of implementation of IFRS 16 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 2019 when the Group will adopt IFRS 16 (first implementation as of 31 March 2019).

There are two types of leases in GTC group that are subject to IFRS 16 and will affect the financial statements.

- Leasing property to tenants - Primary activity of GTC Group.

For this leasing activity, GTC Group acts as a Lessor. As was mentioned previously, a lessor accounting under IFRS 16 is substantially unchanged, therefore we do not expect any influence on the Group.

- Leases of lands for perpetual usufruct where the Group acts as Lessee

Perpetual usage payments are payments, which are done in advance or in arrears on an annual or monthly basis within define period (from 33 to 87 years). Perpetual usage payments are done in Poland, Croatia, Romania and Serbia.

Due to the fact that perpetual usage payments, by substance, are treated as lease payments, payments are to be considered under IFRS 16.

In the consolidated financial position statements the Group will preliminarily recognize a Right-of-Use and Lease Liabilities in an estimated amount of Euro 45 million as following:

Right-of-Use will be presented as part of the Investment Property, with separate disclosure in a separate note.

Lease Liabilities will be presented separately, as part of the Short term and Long term Liabilities, with a separate disclosure.

In the Consolidated Income Statement the Group used to present the leases payments within the operating expenses (for completed assets), or other expenses (for landbank). Under IFRS 16 the Group will present the amortization of Right-of-use or the change in fair value of Right-of-use within the profit (loss) on revaluations, and the interest embedded within the land leases as finance expenses.

(in thousands of Euro)

6. New standards and interpretations that have been issued but have not yet become effective, including impact of IFRS 16 implementation (continued)

The Right of use will be amortized over the lease period (for cost method) or valued using the fair value approach (for investment properties valued in fair value).

The Group entered into several other leases. Those leases are immaterial.

The preliminary estimation of IFRS 16 impact on the financial statements for the year 2019 is presented below (Euro million):

Right of Use asset	+50
Lease liability	+50
Service charge costs	-1.3
Other expenses	-1.2
Loss from revaluation	+0.5 (*)
Interest expenses	+2.3

(*) The costs will be recognised as expenditure on investment property unevenly during the year, depending on the actual payments.

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 7(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 %

7. Summary of significant accounting policies (continued)

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 2018 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 revalues IPUC, for which a substantial part of the development risks have been eliminated. IPUC, 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. As of the date of revaluation 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 7(k).

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

Group has the following revenue stream:

- **Rental income.** The main source of income of the Group, which is charged to tenants on monthly basis, based on rent fee rate, agreed in contract.
- **Service charge** represents income from charging of maintenance costs (cleaning, security costs, management fee etc.) to tenants. Service charge is billed on monthly basis, based on service fee rate, agreed in Contract, which represents the best estimate for particular project. Allocation of service charge to tenants is done based on leased area.

  Heating, water and sewage are billed separately on monthly basis, based on leased area and rates, agreed in Contact.
- **Revenue from sale of houses and apartments.**

Critically for lessors, rental income arising from the leasing of property continues to be within the scope of IAS 17 and, hence, is not within the scope of the new revenue standard. However, depending on decisions reflected in any final leasing standard, service charge revenue may need to be split out and accounted for separately in accordance with IFRS 15. Revenue from sale of houses and apartments are accounted under IFRS 15 Standard.

Service charge revenue under IFRS 15.

Service charge revenue is recognised under IFRS 15 when control of the goods or services are transferred to the customer at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services.

Group recognizes two kind of performance obligations in the Group:

- **Acting as an agent.** Some tenants install counters for electricity. In this case the invoices for electricity are billed through GTC entities and addressed to the tenants directly. The Group recognizes cost and corresponding income at the same amount. For financial statement purpose such income and expenses are disclosed on net basis, as GTC acts as an agent.
- **Acting as a principal.** In the other cases, all service charges are billed to GTC entities on monthly basis. The Group bills the tenants based on the rates in the contract on monthly basis. By the end of the year, the Group does reconciliation of actual service charges costs vs. billed one, and then bill for deficit or return the

7. Summary of significant accounting policies (continued)

overpayment to the tenant if it is required. For financial statement purpose such expenses are disclosed on gross basis, as GTC acts as an principal.

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.

Revenue from sale of houses and apartments IFRS 15.

Revenue from the sale of houses and apartments is recognised at the point in time when control of the asset is transferred to the customer.

(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 & other 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 in cases where certain lease is denominated in local currency.

Year	2018	2017
EUR/PLN	4.300	4.1709
EUR/HUF	320.98	310.33
EUR/UAH	31.7141	33.4954

(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,

8. Summary of significant accounting policies (continued)

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.

(s) Financial instruments – initial recognition and subsequent measurement

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

Financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, fair value through other comprehensive income (OCI), and fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient, the Group initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient are measured at the transaction price determined under IFRS 15. Refer to the accounting policies in section *(m) Contract revenue and costs recognition*.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognised on the trade date, i.e., the date that the Group commits to purchase or sell the asset.

Subsequent measurement

For purposes of subsequent measurement, financial assets are classified in four categories:

- Financial assets at amortised cost (debt instruments);
- Financial assets at fair value through OCI with recycling of cumulative gains and losses (debt instruments);
- Financial assets designated at fair value through OCI with no recycling of cumulative gains and losses upon derecognition (equity instruments);
- Financial assets at fair value through profit or loss.

Financial assets at amortised cost (debt instruments)

This category is the most relevant to the Group. The Group measures financial assets at amortised cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows

  And

- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding

7. Summary of significant accounting policies (continued)

Financial assets at amortised cost are subsequently measured using the effective interest (EIR) method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired.

The Group's financial assets at amortised cost include trade receivables, loans to associate and short-term deposits under current financial assets.

Financial assets at fair value through OCI (debt instruments)

The Group measures debt instruments at fair value through OCI if both of the following conditions are met:

- The financial asset is held within a business model with the objective of both holding to collect contractual cash flows and selling

  And

- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding

For debt instruments at fair value through OCI, interest income, foreign exchange revaluation and impairment losses or reversals are recognised in the statement of profit or loss and computed in the same manner as for financial assets measured at amortised cost. The remaining fair value changes are recognised in OCI. Upon derecognition, the cumulative fair value change recognised in OCI is recycled to profit or loss.

The Group does not have such debt instruments.

Financial assets designated at fair value through OCI (equity instruments)

Upon initial recognition, the Group can elect to classify irrevocably its equity investments as equity instruments designated at fair value through OCI when they meet the definition of equity under IAS 32 Financial Instruments: Presentation and are not held for trading. The classification is determined on an instrument-by-instrument basis.

Gains and losses on these financial assets are never recycled to profit or loss. Dividends are recognised as other income in the statement of profit or loss when the right of payment has been established, except when the Group benefits from such proceeds as a recovery of part of the cost of the financial asset, in which case, such gains are recorded in OCI. Equity instruments designated at fair value through OCI are not subject to impairment assessment.

The Group does not have such equity instruments.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading, financial assets designated upon initial recognition at fair value through profit or loss, or financial assets mandatorily required to be measured at fair value. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets with cash flows that are not solely payments of principal and interest are classified and measured at fair value through profit or loss, irrespective of the business model. Notwithstanding the criteria for debt instruments to be classified at amortised cost or at fair value through OCI, as described above, debt instruments may be designated at fair value through profit or loss on initial recognition if doing so eliminates, or significantly reduces, an accounting mismatch.

7. Summary of significant accounting policies (continued)

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognised in the statement of profit or loss.

The Group does not have such instruments.

Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

The Group's financial liabilities include trade and other payables, loans and borrowings including bank overdrafts, and derivative financial instruments.

Subsequent measurement

The measurement of financial liabilities depends on their classification, as described below:

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are incurred for the purpose of repurchasing in the near term. This category also includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by IFRS 9. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments.

Gains or losses on liabilities held for trading are recognised in the statement of profit or loss.

Financial liabilities designated upon initial recognition at fair value through profit or loss are designated at the initial date of recognition, and only if the criteria in IFRS 9 are satisfied.

Loans and borrowings

This is the category most relevant to the Group. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the EIR method. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the EIR amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included as finance costs in the statement of profit or loss.

This category generally applies to interest-bearing loans and borrowings.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated statement of financial position if there is a currently enforceable legal right to

7. Summary of significant accounting policies (continued)

offset the recognised amounts and there is an intention to settle on a net basis, to realise the assets and settle the liabilities simultaneously.

The table below presents the categorisation of financial assets and liabilities: Item, Category, and Measurement.

Item	Category	Measurement
	Financial assets/liabilities	
Cash and short-term deposits	Financial assets at amortised cost	Amortised cost
Debtors	Financial assets at amortised cost	Amortised cost
Trade and other payables	Financial liabilities at amortised cost	Amortised cost
Long and short term borrowings	Loans and borrowings	Amortised cost
Deposits from tenants	Financial liabilities at amortised cost	Amortised cost
Long term payables	Financial liabilities at amortised cost	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	Financial liabilities at fair value through profit or loss	Fair value – adjusted to profit and loss
Forex forward	Financial liabilities at fair value through profit or loss	Fair value – adjusted to profit and loss

(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

A receivable represents the Group's right to an amount of consideration that is unconditional (i.e., only the passage of time is required before payment of the consideration is due). Refer to accounting policies of financial assets in section s) Financial instruments – initial recognition and subsequent measurement.

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 financial instruments and hedge accounting

Initial recognition and subsequent measurement

The Group uses derivative financial instruments, such as interest rate swaps and cap, to hedge its interest rate risks. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

For the purpose of hedge accounting, hedges are classified as cash flow hedges when hedging the exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction or the foreign currency risk in an unrecognised firm commitment.

At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which it wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge.

Before 1 January 2018, the documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the Group will assess the effectiveness of changes in the hedging instrument's fair value in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair value or cash flows and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

Beginning 1 January 2018, the documentation includes identification of the hedging instrument, the hedged item, the nature of the risk being hedged and how the Group will assess whether the hedging relationship meets the hedge effectiveness requirements (including the analysis of sources of hedge ineffectiveness and how the hedge ratio is determined). A hedging relationship qualifies for hedge accounting if it meets all of the following effectiveness requirements:

There is 'an economic relationship' between the hedged item and the hedging instrument.

- The effect of credit risk does not 'dominate the value changes' that result from that economic relationship.
- The hedge ratio of the hedging relationship is the same as that resulting from the quantity of the hedged item that the Group actually hedges and the quantity of the hedging instrument that the Group actually uses to hedge that quantity of hedged item.

7. Summary of significant accounting policies (continued)

Hedges that meet all the qualifying criteria for hedge accounting are accounted for, as described below.

Cash flow hedges

The effective portion of the gain or loss on the hedging instrument is recognised in Other Comprehensive Income in the cash flow hedge reserve, while any ineffective portion is recognised immediately in the statement of profit or loss. The cash flow hedge reserve is adjusted to the lower of the cumulative gain or loss on the hedging instrument and the cumulative change in fair value of the hedged item.

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 the 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 7 (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 determines 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 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 2018.

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 Group, 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 Group 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 Group 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, and voting rights proportion as at the end of each period (the table presents the effective stake):

Subsidiaries

Name	Holding Company	Country of incorporation	31 December 2018	31 December 2017
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 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. (1)	GTC S.A.	Poland	100%	100%
Jowett Sp. z o.o. (1)	GTC S.A.	Poland	100%	100%
GTC Hungary Real Estate Development Company Ltd. ("GTC Hungary")	GTC S.A.	Hungary	100%	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 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%
Kompakt Land Kft	GTC Hungary	Hungary	100%	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%
GTC Real Estate Vinohrady s.r.o. (2)	GTC S.A.	Slovakia	-	100%

(1) Under liquidation

(2) Liquidated

(in thousands of Euro)

8. Investment in Subsidiaries, Associates and Joint Ventures (continued)

Name	Holding Company	Country of incorporation	31 December 2018	31 December 2017
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 Matrix d.o.o.	GTC S.A.	Croatia	100%	100%
GTC Seven Gardens d.o.o.(2)	GTC S.A.	Croatia	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. (1)	GTC S.A.	Netherlands	-	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") (1)	GTC S.A.	Netherlands	-	100%
Cascade Building S,R,L	GTC S.A.	Romania	100%	100%
City Gate Bucharest S.R.L.	GTC S.A.	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.	GTC S.A.	Romania	100%	100%
City Rose Park SRL (previously Complexul Residential Colentina S.R.L.)	GTC S.A.	Romania	100%	100%
Operetico Enterprises Ltd.(1)	GTC S.A.	Cyprus	-	66.7%
Deco Intermed S.R.L.	GTC S.A.	Romania	66.7%	66.7%
GML American Regency Pipera S.R.L.	GTC S.A.	Romania	66.7%	66.7%

(1) Liquidated

(2) Established

(in thousands of Euro)

8. Investment in Subsidiaries, Associates and Joint Ventures (continued)

Name	Holding Company	Country of incorporation	31 December 2018	31 December 2017
GTC Business Park EAD (5)	GTC S.A.	Bulgaria	-	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%
Dorado 1 EOOD (3)	GTC S.A.	Bulgaria	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%	100%
Europort Investment (Cyprus) 1 Limited	GTC S.A.	Cyprus	100%	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%
Europort Ukraine LL	Europort Investment (Cyprus) 1 Limited	Ukraine	100%	100%
Europort Project Ukraine 1 LLC	Europort Investment (Cyprus) 1 Limited	Ukraine	100%	100%

Investment in Associates and Joint Ventures

Name	Holding Company	Country of incorporation	31 December 2018	31 December 2017
Yatelsis Viborgskaya Limited of Nicosia (“YVL”) (4)	GTC S.A.	Cyprus	-	50%
CID Holding S.A. (“CID”) (2)	GTC S.A.	Luxembourg	35%	35%

(1) Liquidated

(2) Under liquidation

(3) Acquired

(4) Sold

(5) Merged into NRL EAD

9. Events in the period

On 30 July 2018, LSREF III GTC Investments B.V. contributed its shares in the Company (constituting 61.75% of the Company's share capital) in kind to its wholly-owned (100%) subsidiary, GTC Dutch Holdings B.V., (see also note 33.).

Completion of investments

In March 2018, GTC Group has completed the renovation of two office buildings (Green Heart) in Belgrade.

In June 2018, GTC Group has completed the construction of White House office building in Budapest.

Issuance of bonds and refinance

In December 2017, the Group refinanced Avenue Mall, Zagreb. The total loan *amounted* to Euro 50 million. The proceeds from refinance were received in January 2018.

In March 2018, the Company issued 3-year Euro denominated bonds, listed on WSE in the total amount of EUR 20.5 million.

In April 2018, the Group refinanced Business Park office building in Belgrade. The total loan *amounted* to Euro 24 million.

In June 2018, the Group financed BBC office building in Belgrade with a bank loan. The total loan amounts to Euro 23 million.

In August 2018, Globis Wroclaw and Santander Bank signed a new loan agreement.

On 31 October 2018, the Group fully repaid the bank loan granted to Artico by mBank in the amount of Euro 13 million.

In December 2018, Artico and PKO BP signed a new loan agreement. The total loan *amounted* Euro 14.5 million was drawn in January 2019.

In December 2018, the Group and Raiffeisen Bank signed an agreement to refinance Forty one office complex in Belgrade. The Group will fully repay the existing bank loan in the amount of Euro 26 million, and draw a new loan amounted Euro 40 million.

9. Events in the period (continued)

Acquisition of subsidiary/assets

On 31 May 2018, the Company acquired a Bulgarian company, which owned a shopping mall and adjacent office building located in Sofia (Mall of Sofia), Bulgaria. Mall of Sofia provides 22,400 sqm of retail space and 10,300 sqm of office space.

The purchase price of the shares amounted to EUR 39 million. Simultaneously, the Bulgarian company entered into a loan agreement with OTP BANK PLC and DSK BANK EAD. The banks granted a loan related to the Mall of Sofia in the amount of EUR 61.4 million.

In September 2018, the Group acquired a land plot and an old office building adjacent Centre Point office building in Budapest for a total amount of Euro 16.5 million. The office building has leasable area of 6,000 sqm. The Group plans to demolish the building and develop an office building with a leasable area of 35,500 sqm.

Distribution of dividend

In May 2018, the Company's shareholders adopted a resolution regarding distribution of dividend in the amount of PLN 155.2 million (Euro 36.2 million), PLN 0.33 per share, and allowing the Company's shareholders to elect to receive the dividend in the form of newly issued shares instead of cash.

In June 2018, the Company issued 13,233,492 series M Shares to the Company's shareholders who elected to receive the dividend in shares (Euro 26.5 million), and paid dividend in the amount of Euro 9.7 million to the remaining shareholders.

Sale of investment

In February 2019, the Group signed a term sheet for the sale of White House office building in Budapest. Accordingly, as of 31 December 2018, the asset is presented within the assets held for sale, with a total fair value of Euro 70 million.

(in thousands of Euro)

10. Revenue from operations

Rental income includes rental revenue based on tenants' turnover for the year ended 31 December 2018 of Euro 2,111 thousand (2017: Euro 1,733 thousand). The remaining revenue is based on fixed contractual rental fees.

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 2018	31 December 2017
Within 1 year	122	105
After 1 year, but not more than 5 years	271	229
More than 5 years	23	44
	416	**378**

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.

Service charge revenue includes income from charging of maintenance costs to tenants. Service charge is billed on monthly basis, based on the agreed rate from the contract.

11. Selling expenses

Selling expenses comprise of the following:

	2018	2017
Advertising and marketing	848	826
Payroll and related expenses	1,300	1,285
	2,148	**2,111**

(in thousands of Euro)

12. Administration expenses

Administration expenses comprise of the following:

	2018	2017
Remuneration and fees	6,872	6,959
Audit and valuations	1,229	1,081
Legal and tax advisers	869	1,074
Office and insurance expenses	924	1,010
Travel expenses	430	426
Supervisory board remuneration fees	98	108
Depreciation	558	528
Investors relations and other expenses	467	358
Total before share based payment	**11,447**	**11,544**
Share based payment	(1,211)	3,698
Total	**10,236**	**15,242**

13. Financial income and financial expense

Financial income comprise of the following:

	2018	2017
Interest on loans granted to associates and joint ventures	-	79
Interest on deposits and other	130	155
Interest on loan granted to non-controlling interest	246	-
	376	**234**

Financial expense comprise of the following:

	2018	2017
Interest expenses (on financial liabilities that are not fair valued through profit or loss) and other charges	(27,925)	(26,588)
Change in fair value of financial instruments	396	284
Loan raising amortization	(2,655)	(2,544)
	(30,184)	**(28,848)**

The average interest rate (including hedges) on the Group's loans as of 31 December 2018 was 2.7% p.a. (2.8% p.a. as of 31 December 2017).

(in thousands of Euro)

14. 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.

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. Sofia
g. Other

In prior year financial statements segments were as following: Poland, Belgrade, Budapest, Bucharest, Zagreb, Bulgaria, and other. After acquisition of Mall of Sofia (see note 1) and sale of non-core shopping centres in Bulgaria, management decided to present Sofia as a separate reporting segment.

Segment analysis of rental income and costs for the year ended 31 December 2018 and 31 December 2017 is presented below:

	2018			2017		
Portfolio	**Revenues**	**Costs**	**Gross margin**	**Revenues**	**Costs**	**Gross margin**
Poland	78,531	(24,530)	54,001	63,258	(19,701)	43,557
Belgrade	19,619	(4,251)	15,368	15,529	(3,628)	11,901
Budapest	21,827	(5,166)	16,661	20,416	(4,880)	15,536
Bucharest	17,350	(3,594)	13,756	15,898	(3,683)	12,215
Zagreb	10,990	(3,736)	7,254	10,789	(3,744)	7,045
Sofia (*)	5,644	(1,101)	4,543	-	-	-
Other (*)	-	-	-	2,847	(960)	1,887
Total	**153,961**	**(42,378)**	**111,583**	**128,737**	**(36,596)**	**92,141**

(*) Income in year 2018, relates to the Mall of Sofia, which was acquired on 31 May 2018 (See note 9). Income in year 2017, relates to non-core shopping centres in Stara Zagora and Burgas, which were sold in April 2017.

(in thousands of Euro)

14. Segmental analysis (continued)

Segment analysis of assets and liabilities as of 31 December 2018 is presented below:

	Real estate	Cash and deposits	Other	Total assets	Loans and bonds	Deferred tax liability	Other	Total liabilities
Poland	1,003,436	13,557	6,544	**1,023,537**	493,664	72,078	16,555	**582,297**
Belgrade	359,089	11,984	2,468	**373,541**	142,242	14,279	17,486	**174,007**
Budapest	354,760	14,096	1,269	**370,125**	113,132	11,304	11,855	**136,291**
Bucharest	214,450	13,030	6,176	**233,656**	109,685	11,082	9,955	**130,722**
Zagreb	136,424	3,995	11,029	**151,448**	48,000	16,776	8,896	**73,672**
Sofia (*)	128,547	3,920	1,665	**134,132**	64,044	7,213	3,225	**74,482**
Other	10,910	11	-	**10,921**	-	-	1,184	**1,184**
Non allocated		58,972	592	**59,564**	150,951	6,388	6,135	**163,474**
Total	**2,207,616**	**119,565**	**29,743**	**2,356,924**	**1,121,718**	**139,120**	**75,291**	**1,336,129**

(*) On 31 May 2018, the Company acquired Mall of Sofia (See note 9).

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

	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**
Sofia	17,228	267	729	**18,224**	-	-	335	**335**
Other	10,808	37	6	**10,851**	-	-	1,181	**1,181**
Non allocated	-	79,925	2,120	**82,045**	188,605	3,963	7,033	**199,601**
Total	**1,962,458**	**201,502**	**18,649**	**2,182,609**	**1,034,085**	**125,827**	**81,435**	**1,241,347**

(in thousands of Euro)

15. Taxation

The major components of tax expense are as follows:

	Year ended 31 December 2018	Year ended 31 December 2017
Current corporate and capital gain tax expense	6,450	5,655
Previous year's tax	60	55
Deferred tax expense / (income)	7,428	26,384
	13,938	**32,094**

The Group companies are subject to taxes in the following jurisdictions: Poland, Serbia, Romania, Hungary, Ukraine, Bulgaria, Cyprus, 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 2018	Year ended 31 December 2017
Accounting profit before tax	105,958	188,692
Taxable expenses at the applicable tax rate in each country of activity	**15,410**	**34,080**
Tax effect of expenses that are not deductible in determining taxable profit	3,355	1,840
Share of profit in associates and joint ventures	-	(36)
Loss on sale of subsidiaries	-	(5,453)
Tax effect of foreign currency differences	2,441	(6,960)
Withholding tax	664	432
Previous year's tax	60	55
Unrecognised deferred tax asset in current year	-	7,073
Unrecognised deferred tax asset in previous years	(6,765)	-
Impairment of assets	(2,340)	-
Dividend from foreign subsidiaries	950	940
Other	163	123
Tax expense / (income)	**13,938**	**32,094**

(In thousands of Euro)

15. 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 2017	Credit / (charge) to income statement	Impairment due to sale	As of 31 December 2017	Credit / (charge) to income statement	As of 31 December 2018
Financial instruments	45	3,903	-	**3,948**	354	**4,302**
Tax loss carried forwards	12,158	(708)	(931)	**10,519**	3,137	**13,656**
Basis differences in non-current assets	81	(81)	-	**-**	140	**140**
Accruals	414	32	-	**446**	264	**710**
Netting (**)	(11,623)	(3,290)	-	**(14,913)**	(3,843)	**(18,756)**
Net deferred tax assets	**1,075**	**(144)**	**(931)**	**-**	**52**	**52**

Net deferred tax liability comprises of the following:

	As of 1 January 2017	Credit / (charge) to income statement	Credit / (charge) to equity	First time consolidation	As of 31 December 2017	Credit / (charge) to income statement	Credit / (charge) to equity	First time consolidation	As of 31 December 2018
Financial instruments (*)	(5,406)	(2,558)	(367)	-	(8,331)	(1,538)	447	(17)	(9,439)
Basis differences in non-current assets	(104,454)	(26,883)	-	(983)	(132,320)	(9,873)		(6,243)	(148,436)
Other	-	(89)	-	-	(89)	88			(1)
Netting (**)	11,623	3,290	-	-	14,913	3,843	-	-	18,756
Net deferred tax liability	**(98,237)**	**(26,240)**	**(367)**	**(983)**	**(125,827)**	**(7,480)**	**447**	**(6,260)**	**(139,120)**

(*) 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)

15. Taxation (continued)

The enacted tax rates in the various countries were as follows:

Tax rate	2018	2017
Poland	19%	19%
Hungary	9%	9%
Ukraine	18%	18%
Bulgaria	10%	10%
Serbia	15%	15%
Croatia	18%	18%
Russia	20%	20%
Romania	16%	16%
Cyprus	12.5%	12.5%

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 Polish 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 2018 available in the amount of Euro 322 million. The expiry dates of these tax losses as of 31 December 2018 are as follows: within one year - Euro 21 million, between 2-5 years - Euro 165 million, afterwards – Euro 136 million.

(in thousands of Euro)

16. Property, Plant and Equipment

The movement in property, plant and equipment for the periods ended 31 December 2018 and 31 December 2017 was as follows:

	Buildings and related improvements	Equipment and software	Vehicles	Total
Gross carrying amount				
As of 1 January 2018	**6,205**	**1,350**	**816**	**8,371**
Additions	7	204	281	492
Disposals, impairments and other decreases	-	(23)	(121)	(144)
As of 31 December 2018	**6,212**	**1,531**	**976**	**8,719**
Accumulated Depreciation				
As of 1 January 2018	**301**	**922**	**301**	**1,524**
Charge for the period	254	184	120	558
Disposals, impairments and other decreases	-	(15)	(60)	(75)
As of 31 December 2018	**555**	**1,091**	**361**	2,007
Net book value as of 31 December 2018	**5,657**	**440**	**615**	**6,712**

	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**

(in thousands of Euro)

17. 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 2018	31 December 2017
Completed investment property	1,791,910	1,649,183
Investment property under construction	190,051	148,400
Investment property landbank at cost	131,107	139,258
Total	**2,113,068**	**1,936,841**

The movement in investment property for the periods ended 31 December 2018 and 31 December 2017 was as follows:

	Level 2	Level 3	Total
Carrying amount as of 1 January 2017	**960,650**	**644,025**	**1,604,675**
Hierarchy level reclassification	358,200	(358,200)	
Capitalised subsequent expenditure	20,111	145,478	165,589
Purchase of completed buildings	-	36,857	36,857
Purchase of land plots	-	28,526	28,526
Purchase of subsidiaries holding land plots	9,569	12,500	22,069
Adjustment to fair value / (impairment)	33,774	114,428	148,202
Land Disposals	-	(1,727)	(1,727)
Classified to assets held for sale	-	(4,336)	(4,336)
Sale of subsidiaries	-	(62,000)	(62,000)
Classified to fixed assets	(1,014)		(1,014)
Carrying amount as of 31 December 2017	**1,381,290**	**555,551**	**1,936,841**
Hierarchy level reclassification (1)	30,300	(30,300)	-
Capitalised subsequent expenditure	30,582	82,524	113,106
Purchase of completed buildings (2)	6,799	9,649	16,448
Purchase of subsidiaries holding land plots (3)	-	96,784	96,784
Adjustment to fair value / (impairment)	107	40,018	40,125
Land Disposals (4)	-	(11,694)	(11,694)
Classified to assets held for sale (5)	(70,000)	(6,884)	(76,884)
Foreign exchange differences	(1,761)	103	(1,658)
Carrying amount as of 31 December 2018	**1,377,317**	**735,751**	**2,113,068**

(1) Completion of White House office building in Budapest
(2) Acquisition of Center Point 3 in Budapest
(3) Acquisition of Sofia Mall in Sofia
(4) Disposal of non-core lands in Bucharest, Budapest, and Sofia
(5) Non-core land in Bucharest

(in thousands of Euro)

17. Investment Property (continued)

Fair value and impairment adjustment consists of the following:

	2018	2017
Adjustment to fair value of completed investment properties	(14,464)	43,204
Adjustment to fair value of investment properties under construction	52,252	104,515
Reversal of impairment/(Impairment) adjustment	2,337	483
Total adjustment to fair value / (impairment) of investment property	**40,125**	**148,202**
Reversal of impairment/(Impairment) of assets held for sale	-	1,423
Impairment of residential landbank	-	(1,063)
Total	**40,125**	**148,562**

Assumptions used in the valuations of completed assets as of 31 December 2018 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	516,930	113	94%	21.1	22.0	2
Poland office	432,610	212	89%	14.2	14.1	2
Belgrade office	211,782	97	94%	16.0	16.5	3
Budapest office	237,740	126	98%	12.3	12.5	2
Bucharest office	190,036	67	94%	18.8	19.4	2
Zagreb retail	104,812	34	95%	20.6	20.3	2
Sofia retail	98,000	33	98%	19.8	20.4	3
Total	**1,791,910**	**682**	**93%**	**16.3**	**16.6**	

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**	

(*) ERV- Estimated Rent Value

(in thousands of Euro)

17. Investment Property (continued)

Information regarding investment properties under construction as of 31 December 2018 is presented below:

	Book value	**Estimated area (GLA)**
	'000 Euro	thousand sqm
Belgrade (Ada, Green Heart) (3)	140,980	59
Sofia (ABC I, ABC II)	30,547	33
Zagreb (Matrix I, Matrix II)	18,524	21
Total	**190,051**	**113**

Information regarding investment properties under construction as of 31 December 2017 is presented below:

	Book value	**Estimated area (GLA)**
	'000 Euro	thousand sqm
Belgrade (Ada, Green Heart)	106,780	80
Budapest (White House) (1)	30,300	22
Sofia (ABC I)	8,856	16
Zagreb (Matrix I)	2,464	10
Total	**148,400**	**128**

(1) Project was completed in 2018

Information regarding book value of investment property landbank for construction as of 31 December 2018 and 31 December 2017 is presented below:

	31 December 2018	31 December 2017
Poland	39,270	33,116
Serbia	5,510	5,454
Hungary (2)	38,921	26,671
Romania	13,895	11,192
Bulgaria	-	6,382
Croatia	12,600	14,280
Total	**110,196**	**97,095**

(2) The Group purchased land plots in 2018 (see note 9)

(3) Green Heart -Two buildings were completed in 2018

(in thousands of Euro)

17. Investment Property (continued)

Information regarding book value of investment property landbank (long term pipeline) as of 31 December 2018 and 31 December 2017 is presented below:

	31 December 2018	31 December 2017
Poland	12,351	17,980
Hungary	4,500	8,400
Romania	-	9,841
Bulgaria	1,800	3,790
Ukraine	2,260	2,152
Total	**20,911**	**42,163**
Grand Total	**131,107**	**139,258**

18. Inventory and Residential landbank

The movement in residential landbank and inventory for the period ended 31 December 2018 was as follows:

	Residential Inventory	**Residential landbank**	**Total**
Carrying amount as of 1 January 2017	**5,355**	**13,761**	**19,116**
Construction costs	2,915		2,915
Reversal of Impairment (impairment) to net realisable value	-	(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**
Construction costs	113	-	113
Cost of units sold	(3,868)	-	(3,868)
Carrying amount as of 31 December 2018	**-**	**12,698**	**12,698**

The carrying amount of residential landbank as of 31 December 2018 refers to two non-core land plots designated for residential development, in Marlera, Croatia and in Bucharest.

19. Investment in associates and Joint ventures

The investment in associates and joint ventures comprises the following:

	31 December 2018	**31 December 2017**
Russia (1)	-	1,303
Investment in associates and joint ventures	**-**	**1,303**

(1) The Group sold its stake in the joint venture. The proceeds from sale are recognized in instalments until September 2018.

(in thousands of Euro)

20. Advances received

Advances received comprises the following amounts:

	31 December 2018	31 December 2017
Sale of residential units in Konstancja project	-	1,768
Sale of investment properties landbank	3,817	3,043
Rental income received in advance	1,020	2,040
	4,837	**6,851**

21. 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 2018 and 31 December 2017 was as follows:

	31 December 2018	31 December 2017
Fair value as of beginning of the year	**(3,394)**	**(5,331)**
Charged to other comprehensive income	(2,625)	1,633
Charged to income statements	396	304
Fair value as of end of the year	**(5,623)**	**(3,394)**

For more information regarding derivatives, see note 39

22. Trade and other payables

The movement in trade and other payables for the year ended 31 December 2018 was as follows:

	31 December 2018	31 December 2017
Balance as of 1 January	**(50,505)**	**(36,739)**
Charges related to investing activity	456	(14,301)
Charges related to sale of investments	(983)	1,293
Charges related to operating activity	618	(511)
Charges related to Finance activity	(85)	(247)
Balance as of 31 December	**(50,499)**	**(50,505)**

As of 31 December 2018 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 2017 amounted to Euro 41 million).

23. 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.

24. 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.

25. Other expenses

Other expenses relate mainly to perpetual usufruct expenses of undeveloped landbank, one-off expenses as well as unrecoverable taxes.

26. Deposits from tenants

Deposits from tenants represent amounts deposited by tenants to guarantee their performance of their obligations under tenancy agreements.

27. Long term payables

Long term payables consist long term commitments related with purchase of land and development of infrastructure.

28. VAT and other tax receivable

VAT and other tax receivable represent VAT receivable on the purchase of assets, and due to development activity.

29. Receivables related to expropriation of land

An amount of Euro 4.9 million was approved by the Romanian State to be paid to the Group as compensation for expropriated land in Bucharest and recognized as receivable as of December 31, 2018. The amount was paid to the Group on January 11, 2019.

(in thousands of Euro)

30. Non-controlling interest

Summarised financial information of the material non-controlling interest as of 31 December 2018 is presented below:

	Avenue Mall	Non-core projects	Total
Non-current assets	139,625	12,698	152,323
Current assets	4,153	168	4,321
Total assets	**143,778**	**12,866**	**156,644**
Equity	77,917	(66,588)	11,329
Non-current liabilities	62,827	79,120	141,947
Current liabilities	3,034	334	3,368
Total equity and liabilities	**143,778**	**12,866**	**156,644**
Revenue	11,056	-	11,056
Profit /(loss) for the year	4,853	(2,360)	2,493
NCI share in equity	**23,375**	**(18,331)**	**5,044**
NCI share in profit / (loss)	**1,456**	**(638)**	**818**

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**

(in thousands of Euro)

31. Long-term loans and bonds

	31 December 2018	31 December 2017
Bonds mature in 2017-2018		23,744
Bonds mature in 2018-2019	15,799	48,872
Bonds 1019	28,959	28,959
Schuldschein 1219	15,023	15,023
Bonds 0320	18,673	18,675
Bonds 0620	40,070	40,070
Bonds 1220	10,117	10,117
Bonds 0321	20,737	-
Loan from OTP (GTC)	1,573	4,718
Loan from Santander (Globis Poznan)	15,084	15,579
Loan from Santander (Korona Business Park)	44,756	46,157
Loan from PKO BP (Pixel)	20,577	21,256
Loan from Pekao (Globis Wroclaw)	-	23,107
Loan from Santander (Globis Wroclaw)	22,754	-
Loan from ING (Nothus and Zephirus)	9,332	20,156
Loan from Berlin Hyp (Corius)	10,721	11,064
Loan from Pekao (Sterlinga)	16,188	16,715
Loan from Pekao (Neptun)	20,411	21,076
Loan from Pekao (Galeria Polnocna)	194,904	199,904
Loan from mBank (Artico)	-	12,990
Loan from Pekao (Galeria Jurajska)	87,680	91,176
Loan from Berlin Hyp (UBP)	29,140	30,072
Loan from ING (Francuska)	22,117	22,659
Loan from OTP (Centre Point)	42,042	44,051
Loan from CIB (Metro)	15,554	16,623
Loan from Erste (Spiral)	22,586	24,791
Loan from Erste (White House)	7,904	4,817
Loan from OTP (Duna)	25,046	26,243
Loan from Erste (GTC House)	11,718	12,499
Loan from Erste (19 Avenue)	23,499	22,978
Loan from Societe General (BBC)	22,595	-
Loan from Intesa Bank (Green Heart)	31,812	13,125
Loan from Raiffeisen Bank (Forty one)	26,075	27,292
Loan from Intesa Bank (Ada)	26,543	-
Loan from Erste (Citygate)	78,204	81,197
Loan from Banca Transilvania (Cascade)	4,612	4,852
Loan from Alpha Bank (Premium)	17,101	18,126
Loan from OTP (Mall of Sofia)	59,582	-
Loan from UniCredit (ABC)	4,462	-
Loan from Zagrabecka Banka (AMZ)	48,000	12,312
Loans from NCI	9,768	9,984
Deferred issuance debt expenses	(6,371)	(6,894)
	1,115,347	**1,034,085**

(in thousands of Euro)

31. 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 2018	31 December 2017
Current portion of long term loans and bonds:		
Bonds mature in 2017-2018	-	23,744
Bonds mature in 2018-2019	15,799	32,888
Bonds 1019	28,959	180
Schuldschein 1219	15,023	23
Bonds 0320	175	177
Bonds 0620	70	70
Bonds 1220	13	13
Bonds 0321	243	-
Loan from OTP (GTC)	1,573	3,145
Loan from Santander (Globis Poznan)	15,084	495
Loan from Santander (Korona Business Park)	1,395	1,401
Loan from PKO BP (Pixel)	677	679
Loan from Berlin Hyp (UBP)	930	932
Loan from Pekao (Galeria Jurajska)	3,544	3,496
Loan from Pekao (Globis Wroclaw)		23,107
Loan from Santander (Globis Wroclaw)	693	-
Loan from ING (Nothus and Zephirus)	9,332	10,824
Loan from Berlin Hyp (Corius)	342	343
Loan from Pekao (Sterlinga)	525	527
Loan from Pekao (Neptun)	662	665
Loan from Pekao (Galeria Polnocna)	5,000	5,000
Loan from ING (Francuska)	540	542
Loan from OTP (Centre Point)	2,033	2,009
Loan from Erste (White House)	476	120
Loan from OTP (Duna)	1,211	1,197
Loan from CIB (Metro)	1,115	1,068
Loan from Erste (Spiral)	1,415	1,396
Loan from Erste (GTC House)	781	781
Loan from Erste (19 Avenue)	994	934
Loan from Intesa Bank (Green Heart)	914	700
Loan from Societe General (BBC)	805	-
Loan from Raiffeisen Bank (Forty one)	1,302	1,217
Loan from Intesa Bank (Ada)	664	-
Loan from OTP (Mall of Sofia)	2,457	-
Loan from UniCredit (ABC)	804	
Loan from Zagrabecka Banka (Avenue Mall Zagreb)	2,000	4,454
Loan from Alpha Bank (Premium)	1,025	1,025
Loan from Banca Transilvania (Cascade)	240	240
Loan from Erste (City Gate)	3,079	2,989
	121,894	**126,381**

(in thousands of Euro)

31. Long-term loans and bonds (continued)

	31 December 2018	31 December 2017
Long term portion of long term loans and bonds:		
Bonds mature in 2018-2019	-	15,984
Bonds 1019	-	28,779
Schuldschein 1219	-	15,000
Bonds 0320	18,498	18,498
Bonds 0620	40,000	40,000
Bonds 1220	10,104	10,104
Bonds 0321	20,494	-
Loan from OTP (GTC)	-	1,573
Loan from Santander (Globis Poznan)	-	15,084
Loan from Santander (Korona Business Park)	43,361	44,756
Loan from PKO BP (Pixel)	19,900	20,577
Loan from Santander (Globis Wroclaw)	22,061	-
Loan from ING (Nothus and Zephirus)	-	9,332
Loan from Berlin Hyp (Corius)	10,379	10,721
Loan from Pekao (Sterlinga)	15,663	16,188
Loan from Pekao (Neptun)	19,749	20,411
Loan from Pekao (Galeria Polnocna)	189,904	194,904
Loan from mBank (Artico)	-	12,990
Loan from Pekao (Galeria Jurajska)	84,136	87,680
Loan from Berlin Hyp (UBP)	28,210	29,140
Loan from ING (Francuska)	21,577	22,117
Loan from OTP (Centre Point)	40,009	42,042
Loan from CIB (Metro)	14,439	15,555
Loan from OTP (Duna)	23,835	25,046
Loan from Erste (Spiral)	21,171	23,395
Loan from Erste (White House)	7,428	4,697
Loan from Erste (GTC House)	10,937	11,718
Loan from Erste (19 Avenue)	22,505	22,044
Loan from Intesa Bank (Green Heart)	30,898	12,425
Loan from Intesa Bank (Ada mall)	25,879	-
Loan from Societe General (BBC)	21,790	-
Loan from Raiffeisen Bank (Forty one)	24,773	26,075
Loan from Erste (City Gate)	75,125	78,208
Loan from Banca Transilvania (Cascade)	4,372	4,612
Loan from Alpha Bank (Premium)	16,076	17,101
Loan from OTP (Mall of Sofia)	57,125	-
Loan from UniCredit (ABC)	3,658	-
Loan from Zagrabecka Banka (Avenue Mall Zagreb)	46,000	7,858
Loans from NCI	9,768	9,984
Deferred issuance debt expenses	(6,371)	(6,894)
	993,453	**907,704**

(in thousands of Euro)

31. 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 Group 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 received by Spiral is nominated in Hungarian Forint (HUF).

Bonds (series matures in 2018-2019) are nominated in PLN. All other bank loans and bonds are denominated in Euro.

As of 31 December 2018, there were no breach of loan covenants.

The movement in long term loans and bonds for the years ended 31 December 2018 and 31 December 2017 was as follows:

	31 December 2018	31 December 2017
Balance as of the beginning of the year (excluding deferred debt expenses)	**1,040,979**	**899,195**
Drawdowns	191,224	258,268
Repayments	(162,104)	(100,343)
First to be consolidated	53,052	4,964
Purchase of non-controlling interest		-
Change in accrued interest	(169)	446
Deconsolidation	-	(27,898)
Capitalization of interest	1,554	-
Foreign exchange differences	(2,818)	6,347
Balance as of end of the year (excluding deferred debt expenses)	**1,121,718**	**1,040,979**

32. Assets held for sale

Assets held for sale includes White House office building in Budapest (see note 9), and non-core landbank in Budapest and Bucharest.

(in thousands of Euro)

33. Capital and Reserves

Share capital

As at 31 December 2018, 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
13,233,492	M	1,323,349	309,049
483,536,996		**48,353,699**	**10,960,144**

All shares are entitled to the same rights.

Shareholders who as at 31 December 2018 and as at 31 December 2017 held above 5% of the Company shares were as follows:

- GTC Dutch Holdings B.V.
- OFE PZU
- OFE Aviva Santander (previously, 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.

On 17 May 2018, the Company held an ordinary shareholders meeting. The ordinary shareholders meeting decided that the loss for the year 2017 presented in the financial statements of Globe Trade Centre S.A. prepared in accordance with the Polish Accounting Standards shall be presented within Retained earnings.

(in thousands of Euro)

34. Provision for share based payments

Phantom shares

Certain key management personnel of the Group are entitled to specific cash payments resulting from phantom shares in the Group (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
6.48	3,252,400	5,868,800	9,121,200
7.39	50,000	100,000	150,000
9.33	100,000	35,000	135,000
Total	**3,402,400**	**6,003,800**	**9,406,200**

As at 31 December 2018, phantom shares issued were as follows:

Last year of exercise date	Number of phantom shares
2019	460,800
2020	150,000
2021	7,547,400
2022	1,248,000
Total	**9,406,200**

(in thousands of Euro)

35. Earnings per share

Basic earnings per share were calculated as follows:

	Year ended 31 December 2018	Year ended 31 December 2017
Profit for the period attributable to equity holders (Euro)	91,202,000	156,300,000
Weighted average number of shares for calculating basic earnings per share	477,554,732	465,467,259
Basic earnings per share (Euro)	0.19	0.34

There have been no potentially dilutive instruments as at 31 December 2018 and 31 December 2017.

36. 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 2018	Year ended 31 December 2017
Transaction		
Asset management services	570	619
Interest income from associates and joint Ventures	246	79
Balances		
Receivables from related party	27	188
Loan granted to non-controlling interest partner	10,282	-
Investment in joint ventures and associates	-	1,303

Management and Supervisory Board remuneration for the year ended 31 December 2018, amounted to EUR 1.2 million, and 800,000 phantom shares were vested. 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.

37. Commitments, contingent liabilities and Guarantees

Commitments

As of 31 December 2018 (31 December 2017), the Group had commitments contracted for in relation to future building construction without specified date, amounting to Euro 92 million (Euro 99 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 2018 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 completion and 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. If the deadline is not met, then the Ministry has the right to terminate the Consortium agreement which might automatically trigger the termination of the Land Acquisition Agreements, as well as collateral activation and damages claims. Prior to 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 then. Since formalization of the amendment is not 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. Furthermore, as a prudential measure, the Management has also written off the related collateral in the amount of Euro 1 million provided to the Ministry as a guarantee for completing the golf course. As of 31 December 2018 the book value of the investment in Marlera Golf project was assessed by an independent valuer at €6,850.

With regards to the Marlera Golf LD d.o.o. that holds Marlera Golf project - GTC SA is registered as a 80% shareholder while a NCI is registered as a 20% shareholder. The relationship between the shareholders is strained and there are ongoing legal disputes. In 2018 both parties filed legal claims against each other. The NCI claims EUR 3,3 million for damages, statutory penalty interest and legal fees. GTC's legal advisors assessed that the chances for the NCI claim to prevail are remote. Consequently the Company has not made any provisions related to this claim.

(in thousands of Euro)

38. 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.

At 31 December 2018, after taking into account the effect of interest rate swaps, approximately 100% of the Group’s borrowings are at a floating rate of interest.

A 50bp increase in EURIBOR rate would lead to Euro 817 thousand change in 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:

	2018 PLN/Euro				**2017 PLN/Euro**			
	-10%	**-5%**	**+5%**	**+10%**	**-10%**	**-5%**	**+5%**	**+10%**
Cash and cash equivalents	3,128	1,564	(1,564)	(3,128)	2,556	1,278	(1,278)	(2,556)
Trade and other receivables	636	318	(318)	(636)	768	384	(384)	(768)
Trade and other payables	(1,394)	(697)	697	1394	(2,352)	(1,176)	1,176	2,352
Bonds	(1580)	(790)	790	1580	(7,262)	(3,631)	3,631	7,262

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

(in thousands of Euro)

38. 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 2018, the Group holds Cash and Cash Equivalent (as defined in IFRS) in the amount of approximately EUR 80.5 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) (the amounts are not discounted):

	31 December 2018	31 December 2017
First year (2019)	148	150
Second year (2020)	268	157
Third year (2021)	219	240
Fourth year (2022)	142	186
Fifth year (2023)	133	66
Thereafter (2024+)	300	334
	1,210	**1,133**

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.

38. Financial instruments and risk management (continued)

Fair Value

As of 31 December 2018 and 2017, all bank loans bear floating interest rate (however, as of 31 December 2018 and 2017, 92% and 90% 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 is close to carrying value.

For fair value of investment property please refer to note 17.

Fair value hierarchy

As at 31 December 2018, 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 2018 and 31 December 2017, 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 2018.

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 adjusts 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 2018 and 31 December 2017.

(in thousands of Euro)

38. 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 2018	31 December 2017
(1) Loans, net of cash and deposits (*)	992,385	828,715
(2) Investment properties, residential landbank, assets held for sale and building for own use	2,207,618	1,959,779
Gearing ratio [(1)/(2)]	45.0%	42.3%

(*) Excluding loans from non-controlling interest and deferred issuance debt expenses.

39. Subsequent events

On 14 February 2019, Midroog (Israel-based credit rating agency accredited by the State of Israel) assigned an A2.il rating with a stable outlook for repayment capability of debt that the Company might raise in Israel, in the amount of up to € 70 million.

In February 2019, the Group signed a term sheet for the sale of White House office building in Budapest. Accordingly, as of 31 December 2018, the asset is presented within the assets held for sale, with a total fair value of Euro 70 million.

In March 2019, the Group and UniCredit signed a new loan agreement in the amount of Euro 20 million (EUR 3.5m top up after completion, subject to agreed conditions), for the construction of ABC II

40. Approval of the financial statements

The financial statements were authorised for issue by the Management Board on 20 March 2019.

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INDEPENDENT AUDITOR'S REPORT ON THE AUDIT

To the General Meeting and Supervisory Board of Globe Trade Centre S.A.

Audit report on the annual consolidated financial statements

Opinion

We have audited the annual consolidated financial statements of Globe Trade Centre S.A. Group (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 2018, 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 2018 to 31 December 2018 and notes to the consolidated financial statements, including a summary of significant accounting policies (the 'consolidated financial statements').

In our opinion, the consolidated financial statements:

- give a true and fair view of the consolidated financial position of the Group as at 31 December 2018 and its consolidated financial performance and its consolidated cash flows for the period from 1 January 2018 to 31 December 2018 in accordance with required applicable rules of International Accounting Standards, International Financial Reporting Standards approved by the European Union and the adopted accounting policies,

- are in respect of the form and content in accordance with legal regulations governing the Group and the Company's Statute.

The opinion is consistent with the additional report to the Audit Committee issued on 20 March 2019.

Basis for opinion

We conducted our audit in accordance with the International Standards on Auditing in the version adopted as the National Auditing Standards by the National Council of Statutory Auditors ("NAS") and pursuant to the Act of 11 May 2017 on Statutory Auditors, Audit Firms and Public Oversight (the 'Act on Statutory Auditors') and the 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 (the 'Regulation 537/2014'). Our responsibilities under those standards are further described in the *'Auditor's responsibilities for the audit of the financial statements'* section of our report.

We are independent of the Group in accordance with the Code of ethics for professional accountants, published by the International Federation of Accountants (the 'Code of ethics'), adopted by the National Council of Statutory Auditors and other ethical responsibilities in accordance with required applicable rules of the audit of financial statements in Poland. We have fulfilled our other ethical responsibilities in accordance with these requirements and the Code of ethics. While conducting the audit, the key certified auditor and the audit firm remained independent of the Group in accordance with the independence requirements set out in the Act on Statutory Auditors and the Regulation 537/2014.

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

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. They include the most significant assessed risks of material misstatement, including the assessed risks of material misstatement due to fraud. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we have summarized our reaction to these risks and in cases where we deemed it necessary, we presented the most important observations related to these types of risks. We do not provide a separate opinion on these matters.

Key audit matter	**How the matter was addressed in our audit**
Valuation of investment properties	
Investment property constitutes more than 89% of total assets of GTC S.A. consolidated accounts as at 31 December 2018. Investment property comprises 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 the Group's accounting policies are met. The fair value of the investment property depends typically on external valuations, that take into account the Management's	We have gained understanding of the valuation process, performed a walkthrough and evaluated the design of controls related to valuation of both investment properties and investment properties under construction. We have discussed with the Company's Management current market situation in various geographies where the Group operates in and obtained understanding of the Management's view in that respect. We focused our analysis on the properties selected on a sample basis, including assets that are of the highest value, that have been recently

Key audit matter	How the matter was addressed in our audit
judgements, assumptions and estimates such as current and future rents, occupancy levels, rent-free periods and expected market yields. Inputs used to measure fair value of the 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. Considering the significant impact on the Group's financial statements as well as high dependency on estimates and judgements, we consider valuation of investment properties as a key audit matter. The disclosures relating to the assumptions used in the valuations are presented in notes 7c and 17 of the consolidated financial statements.	acquired or those showing significant changes in carrying value. We reviewed the valuation reports and models for selected properties and evaluated that the valuation approach was suitable for use in determining the carrying value for the purpose of the Group's consolidated financial statements and appropriate in the current 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 models. Furthermore, we evaluated the objectivity and expertise of the external appraisers, evaluated the appropriateness of the property related data for selected properties, including estimates as used by the external appraisers. 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 of the Company. We have performed analytical review and evaluated the reasonableness of fair value movements in correspondence with expectations we have built on 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

Key audit matter	How the matter was addressed in our audit
	presented in notes 7c and 17 of the consolidated financial statements.
Financing and loan covenants	
As at 31 December 2018, the outstanding Long term loans and borrowings in the Group consolidated financial statements amount to 47% of total assets. As described in note 31 of the consolidated financial statements, for the vast majority of loans, the entities of the Group have to meet certain covenants specified in the 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 aspects of 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 certain estimates and assumptions, including expectations of future economic and market developments which may be uncertain and therefore may change in the future. The disclosure regarding the covenants, loan agreements and amendments are disclosed in note 31 of the consolidated financial statements.	We have gained understanding of the financing process and current loan agreements as well as performed a walkthrough of the process. We have received the Company's assessment of continued covenant compliance, and performed recalculation for selected items. We analyzed debt covenant requirements resulting from the loan agreements, including the covenant ratios and potential events of default. We verified the Management's calculation process of the covenant ratios in accordance with the loan agreements. We have walked through and tested the Company's controls around the debt covenant compliance. We also tested compliance in accordance with applicable financial covenants' requirements by performing recalculation of these covenants, as per 31 December 2018 on a sample basis. Furthermore, we evaluated the adequacy of the Group's disclosure regarding the covenants, loan agreements and amendments, which are disclosed in note 31 of the consolidated financial statements.

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 International Financial Reporting Standards approved by the European Union, using Polish zloty as the presentation currency.

Responsibilities of the Company's Management and members of the Supervisory Board for the financial statements

The Company's Management is responsible for the preparation, based on properly maintained accounting records, the consolidated financial statements that give a true and fair view of the consolidated financial position and the consolidated financial performance in accordance with required applicable rules of International Accounting Standards, International Financial Reporting Standards approved by the European Union, the adopted accounting policies, other applicable laws, as well as the Company's Statute, and is also responsible for such internal control as determined is necessary to enable the preparation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

The Company's Management and the members of the Company's Supervisory Board are required to ensure that the consolidated financial statements meet the requirements of the Accounting Act dated 29 September 1994 (the 'Accounting Act'). The members of the Company's Supervisory Board are responsible for overseeing the Company's financial reporting process.

Auditor's responsibility for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement due to fraud or error, and to issue an independent auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but it is not guarantee that an audit conducted in accordance with NAS will always detect material misstatement when it exists. Misstatements may arise as a result of fraud or error and are considered material if it can reasonably be expected that individually or in the aggregate, they could influence the economic decisions of the users taken on the basis of these consolidated financial statements.

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 are made with the contemplation of the qualitative and quantitative materiality levels established in accordance with auditing standards and auditor's professional judgment.

The scope of the audit does not include assurance on the future profitability of the Group nor effectiveness of conducting business matters now and in the future by the Company's Management.

Throughout the audit in accordance with NAS, we exercise professional judgment and maintain professional skepticism and we also:

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

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

- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Company's Management,

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

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

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

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

We provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and communicate to them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated to the Audit Committee, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Other information, including the Directors' Report

The other information comprises the Directors' Report for the period from 1 January 2018 to 31 December 2018 and the representation on the corporate governance as a separate element of the Directors' Report (jointly 'Other Information').

Responsibilities of the Company's Management and members of the Supervisory Board

The Company's Management is responsible for the preparation of the Other Information in accordance with the law.

The Company's Management and members of the Company's Supervisory Board are required to ensure that the Directors' Report (with separate elements) meets the requirements of the Accounting Act.

Auditor's responsibility

Our opinion on the consolidated financial statements does not include the Other Information.
In connection with our audit of the consolidated financial statements, our responsibility is to read the Other Information and, in doing so, consider whether it is materially inconsistent with the consolidated financial statements or our knowledge obtained during the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this Other Information, we are required to report that fact in our independent auditor's report. Our responsibility in accordance with the Act on Statutory Auditors is also to issue an opinion on whether the Directors' Report was prepared in accordance with relevant laws and that it is consistent with the information contained in the consolidated financial statements.

In addition, we are required to issue an opinion on whether the Company has included the required information in the representation on application of corporate governance.

Opinion on the Directors' Report

Based on the work performed during our audit, in our opinion, the Directors' Report:

- has been prepared in accordance with the article 49 of the Accounting Act and paragraph 71 of the Decree of the Minister of Finance dated 29 March 2018 on current and periodic information published by issuers of securities and conditions for recognition as equivalent the information required by laws of non-EU member states (the 'Decree on current and periodic information'),

- is consistent with the information contained in the consolidated financial statements.

Moreover, based on our knowledge of the Group and its environment obtained during our audit, we have not identified material misstatements in the Directors' Report.

Opinion on the corporate governance application representation

In our opinion, in the representation on application of corporate governance, the Group has included information stipulated in paragraph 70, section 6, point 5 of the Decree on current and periodic information

Moreover, in our opinion, the information stipulated in paragraph 70, section 6, point 5 letter c-f, h and i of the Decree included in the representation on application of corporate governance is in accordance with applicable laws and information included in the consolidated financial statements.

Representation on the provision of non-audit services

To the best or our knowledge and belief, we declare that we have not provided services other than audits of the financial statements to the Company and its subsidiaries, in particular we have not rendered services other than audits, which are prohibited based on article 5 item 1 of Regulation 537/2014 and article 136 of the Act on Statutory Auditors.

Appointment of the audit firm

We were appointed for the audit of the Group's consolidated financial statements initially based on the resolution from 19 December 2002 and reappointed based on the resolution of the Company's Supervisory Board from 17 August 2017. The consolidated financial statements of the Group have been audited by us uninterruptedly starting from the financial year ended on 31 December 2002, i.e. for the past 17 consecutive years.

Warsaw, 20 March 2019

Key Certified Auditor

Łukasz Jarzynka
certified auditor
no in the register: 11959

on behalf of:
Ernst & Young Audyt Polska spółka z ograniczoną odpowiedzialnością sp. k.
Rondo ONZ 1, 00-124 Warsaw
no on the audit firms list: 130